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'Pool' system: farmers face profit dive

FARMERS who heeded exhortations to put up stock on their own account through a "pool" system, instead of accepting meat schedule prices, are facing a financial loss for their efforts.

The drivers' strike in Britain, on top of other factors, has increased their gamble to a dangerously high point in a situation where prices fetched are bound to be comparatively low.

More New Zealand farmers offered their stock to freezing companies on a pool basis this season after an initially low meat schedule announced at the start of the season.

The low schedule took into account a weaker market overseas, plus wage increases for company employees. Wage settlements late last year lowered the schedule further.

New Zealand Meat Producers Board and Federated Farmers spokesmen urged farmers to offer stock on a pool basis because they claimed the schedule was too low and that the meat companies could have absorbed more of their cost increases.

The gamble was that by taking such a step farmers would gain more when their stock was sold on the British market, instead of accepting what the companies wanted to pay.

Initially, the gamble was a reasonable one, but has turned into a bad one.

The drivers' strike in Britain, combined with port pickets in support of their wage claims, effectively halted supplies of New Zealand meat to Britain.

Some 9000 tonnes of lamb are scheduled to reach Britain this month, and a further 35,000 tonnes next month.

Talks aimed at ending the strike broke down again last week, and unless it ends soon, shipping schedules may have to be re-arranged and some diverted to continental ports.

One farming source recalled that the last time this happened, New Zealand producers lost $1 a carcase.

The harsh truth is that during the strike British housewives will simply get by without New Zealand lamb and mutton. Even when the strike is over, no great surge in demand can be expected, although the Meat Board will be hoping for some results from a massive advertising campaign it has scheduled.

Large amounts of meat will arrive on the British market once the strike is settled, and prices will naturally drop.

This means that the prices gained by producers who put up their stock on a pool basis will get so much less.

Some 20 per cent of New Zealand farmers use this system, although the percentage differs from works to works — some have a monthly pool, others take stock on "consignment". It means that farmers take up to 85 per cent of the schedule price for their stock, and then take what the exporting companies get on the open market, less interest, for the remaining 15 per cent. Usually it pays off.

The Meat Board and the Meat Exporters' Council have agreed to take action so that shipment and storage of New Zealand lamb is regulated, and there is a satisfactory flow on to the British market for the next few months, which are considered to be critical and likely be be "most severe", according to a joint statement from the two bodies.

But there is an added complication. If New Zealand were the only supplier, the situation could probably be handled. Unfortunately, it is not.

The situation in Iran has thrown meat marketing into a whirlwind, and Australian exporters are desperately trying to get rid of tonnages that would have gone there.

Meat export officials agree the readiest market is Britain, and once the Australians start "dumping", prices will drop markedly, in spite of New Zealand's attempts to keep prices at a reasonable level for the producer.

The strike's effects, the initial weak market and the chaos in Iran have combined to turn the gamble of the farmers who chose the pool system into a losing proposition.

They may yet get a reasonable price for their produce, but the chances of their bettering the initial meat schedule prices offered are slim.

Exporters themselves are probably losing money on their schedule prices at the moment, and these can be expected to drop further this season as the meat companies try to recoup their losses.

Inside

Lotto study: dept to show hand

by Rae Mazengarb

THE Internal Affairs Department study into the running of a national lotto game similar to Australia's Tattslotto is nearing completion and will be presented to Government in a matter of weeks.

Internal Affairs Secretary J N L Searle said departmental officers had been in Sydney, Melbourne and Adelaide looking at the lottery systems in operation there to assess the merits of each.

The report will include an assessment of a controversial new lottery introduced to South Australia just before Christmas.

After only three weeks trial in Adelaide the "instant money game" was a sell-out success. South Australians spent $4 million and received $2.4 million back in prizes.

Lottery commissioners and officials from all states have been carefully monitoring its operation in anticipation of running their own versions of the game. Tattersals intends to introduce the game to Victoria in May this year.

But retailers, church leaders, psychologists and politicians have attacked it.

INTERNAL AFFAIRS SECRETARY SEARLE . . . "cardboard poker machine."

They say the game is no different in principle from a poker machine and encourages some people to continue playing until they lose all their money.

The instant money game has been described as a "kind of super beer ticket".

Each ticket — which sells for $1 — contains six small panels.

To win or lose, the player rubs the surface of the panels with a coin to reveal six dollar amounts. A repetition of three figures wins prize amounts of between $2 and $10,000.

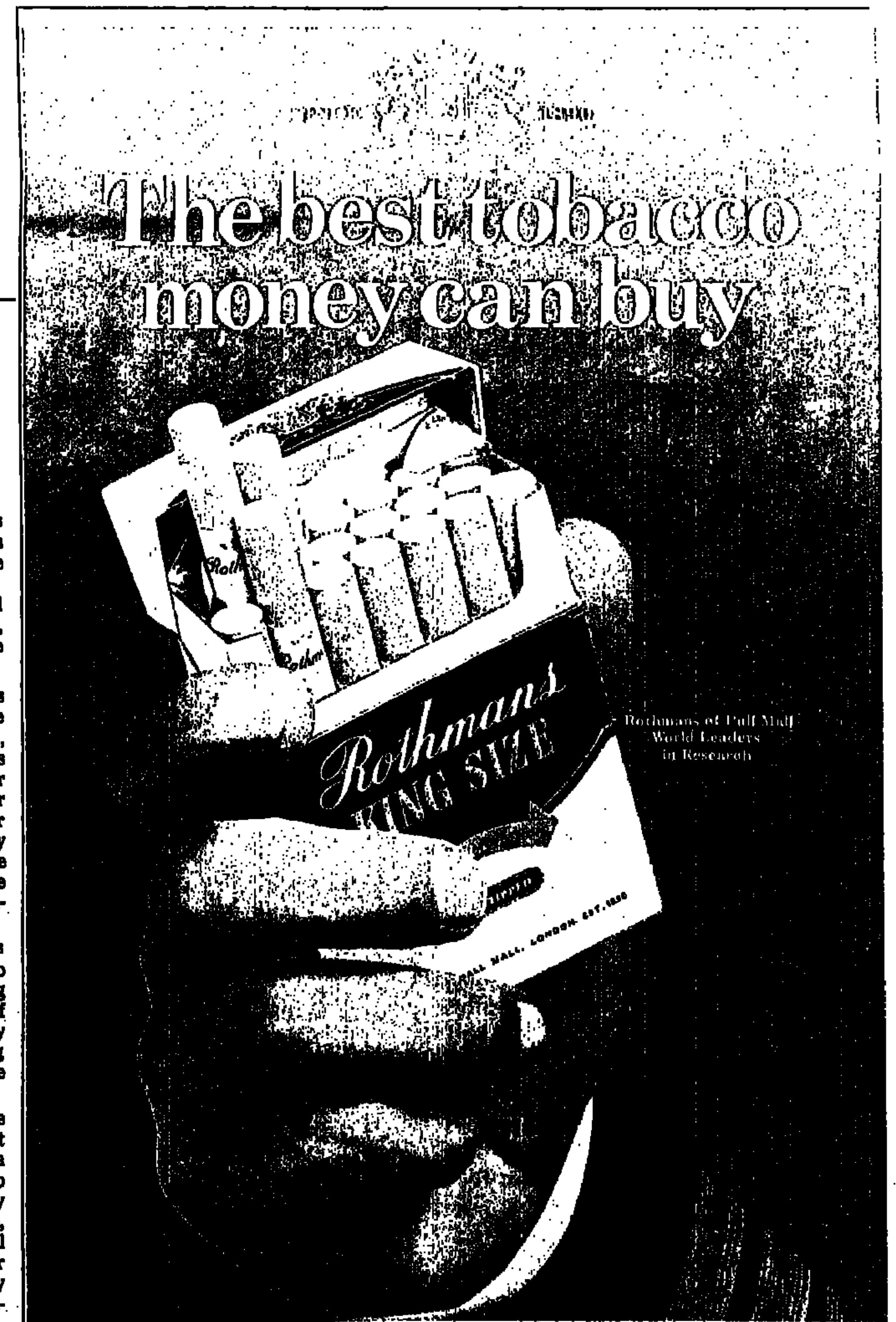
The success of the game— which was first tried in America three years ago—is linked to the fact that players know instantly if they have won.

"It's a bit like a cardboard poker machine," said Searle, but "just another alternative of gambling."

The Internal Affairs officers have been working on the study into the organisation, management and procedures of lotto games since October last year. That's when former Internal Affairs Secretary Sir Patrick O'Dea — originally appointed to undertake the work — withdrew in response to criticism by racing interests.

Various racing committees saw the introduction of a lotto game as disastrous to racing and queried the propriety of Sir Patrick — who is deputy chairman of the Racing Authority — carrying out the study.

Though the report will be presented to the Government shortly it is unlikely that a decision on the introduction to New Zealand of a new lottery will be made hastily, because, any innovation could well succeed at the expense of other games of chance, especially racing and traditional lotteries.



Not exactly the effect the wizard intended

by Colin James

BY an accident of geography, the Rotarians of Orewa, being next door to the Prime Minister's beach house, are becoming part of the political calendar.

Before them, the Prime Minister declares the political year open with his state of the nation address, the official version of the economic figures and their meaning.

This makes it an event, just as the Speech from the Throne at the beginning of the parliamentary session and the presentation of the Budget are events.

And the more established (and therefore ritualistic) an event becomes, the more politics intermingles with subject-matter.

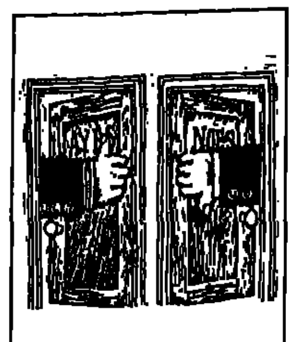
Thus Orewa is no dispassionate economic assessment, but a political statement of intent and defence.

Included in it, for example, was a sentence that has sounded to some in the trade union movement like a threat to put a stop to general wage orders: "I am not happy about the workings of the general wage order system ... the 1978 general wage order decision was a bad one, both in principle and in amount."

Others have seen a veiled hint of wage controls in the section of the speech which included: "...free wage bargaining does not mean that those unions with more clout can use standover tactics to get a better deal..."

The Prime Minister can say, wide-eyed, that that is reading too much into what he said.

But it would be surprising if he were unaware of the disquiet his election speeches



POLITICS

caused in November and of the rumours that piled thick on each other in November and December of a wage freeze in February.

He will know that some unions have been hurrying through house agreements to beat any freeze.

So he must also have been aware that his words would compound the already uneasy atmosphere — and of themselves indirectly influence the more moderate union leaders towards greater moderation.

If that is what he intended, he is probably now delighted with what his intelligence sources are reporting back to him.

In other words, the political effect of that part of the speech has probably been as he hoped — and it is the political effect, rather than the quality of the economic analysis, that counts.

The object is to enlist the public's support for the Government's programmes and objectives (some mention was made, I note, of restructuring to come) and nudge the interest groups towards appropriate attitudes and action.

The Prime Minister is skilled at this, exercising an almost mesmeric influence over opinion leaders

But this year the mesmerism failed The overall political effect of the speech has not been quite what he most likely intended.

The Dominion had him grimacing in large close up beside a front page heading which proclaimed an imminent deficit "crunch" The Press highlighted the same aspect.

In its editorial The Dominion said his bland "mellow, almost soporific" approach "would be more comforting were it not for the hard facts about us" The country was well aware of the facts and would not be fooled.

The Press complained of the lack of a clear statement of general policy and intentions and urged immediate action "... the beginning of the Government's term of office surely the best time for unpalatable measures."

Even the New Zealand Herald managed some dry, even snide, cracks. Example: "Mr Rowling says he cannot imagine any government letting such a budget deficit run But he may have to imagine it — at least until he and the rest of us know whether Mr Muldoon means anything by 'given no further changes in policy'."

The Herald also ran a cartoon by Minhinnick showing the Prime Minister blowing bubbles inside a bubble.

The papers' scepticism was in tune with their influential readers who sang a chorus of disappointment and criticism. The best that could be managed was qualified approval.

Then, just as the Prime Minister started hitting back the papers ran the adverse OECD report big on their front pages. The ordinary newspaper reader could hardly fail to conclude the Prime Minister had lost a points by the end of a week in which he started out holding the initiative.

So what? Governments are often criticised. They often have rough patches.

The difference is that this time the critics seemed to have been waiting for a chance to spring. The newspapers particularly seemed to have been released from some restraining force — deference, or loyalty, or respect for form, or plain fear — which enthralled them. Suddenly it was respectable to criticise Muldoon.

Hints of this attitude had come at the end of last year: the treatment of some of the Prime Minister's letters and the prominent display of Sir John Marshall's criticism of the Government's drift from principles.

If one went in for conspiracy theories — and a lot of suddenly cheerful people in Wellington are right now — one might conjecture that the conservative forces are isolating the Prime Minister from the mainstream of political opinion (with obvious consequences).

Indeed, there are already signs in the way people are talking that they are differentiating between "Muldoon" and "the Government" when they lay blame.

Of course, no such differentiation is valid. The parliamentary National Party has voted with a solidarity that would delight any unionist for every step Muldoon has taken or neglected to take. The party organisation has publicly backed him, too.

But such niceties need not get in the way of political expediency. If the differentiation develops, the Orewa speech may turn out to have a greater significance historically than the Prime Minister intended.

Import licensing under fire at ANZAAS

by Warren Berryman

IMPORT licensing was cited by a Treasury economist last week as the single major cause underlying New Zealand's falling productivity, poor economic growth, and abysmal export performance.

Addressing the ANZAAS Congress, Treasury's senior investigating officer for internal economics, Paul Carpinter, presented his preliminary findings of an ongoing Treasury study into the causes of this country's poor economic performance over the past 20 years.

Carpinter's outline of New Zealand's performance was dismal. During the period 1960-1976, New Zealand's total percentage growth in real GNP was the lowest of all industralised countries — 29 per cent versus 238 per cent for Japan or 102 per cent for Finland. New Zealand's growth in exports over the same period was the second lowest for all industrialised countries — 40 per cent versus 990 per cent for Japan or 107 per cent for Ireland. Growth in New Zealand productivity, Carpinter said, had fallen to zero.

The cause of this state of affairs, he said, was New Zealand's system of hothouse protectionism, and in particular import licensing. This protectionism created uneconomic distortions in allocations of labour and capital, stifled competition, inhibited technological innovation and precluded necessary adjustments to changing market conditions, pushed up prices for the consumer and the cost of inputs for the exporter. All of this led to falling profit levels for exporters, which in turn resulted in a diminished level of supply of exportable product — and a deterioration in the balance of payments.

New Zealand's domestic protection had led to the growth of industries that were not internationally competitive in price or quality, Carpinter said. These industries took up labour and capital, diverting resources from export competitive industries. They could maintain profitability on the domestic market by selling overpriced or poor quality goods to a captive consumer because import licensing precludes imported alternatives. But the international market was not denied alternatives and the local manufacturer spawned in this hothouse climate couldn't stand up to international competition.

New Zealand has the highest level of protection by far of all industrialised countries. As pointed out by Carpinter, international experience has shown that those countries following a protectionist policy like New Zealand's have been singularly poor economic performers.

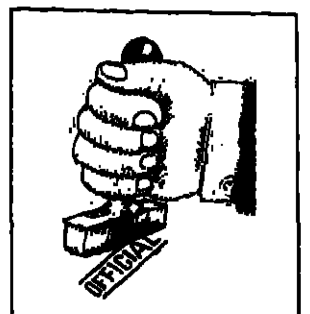
Carpinter's criticisms of import licensing parallel those already made by the World Bank, the IMF, the OECD, GATT, and many of our trading partners.

Citing studies on the long-term effects of protectionism conducted by World Bank economist Bela Balassa, Carpinter pointed out that "if protection is defined as some form of interference with world price signals, it seems that those countries which have followed an outward looking form of protection, where the influence of world prices is reinforced, have in general done better than those which have followed an inward looking form, where production is aimed almost exclusively at the local market and where the influence of world market signals are damped". (For a summary of Balassa's "inward-outward looking policy" options, see NBR July 26 and August 2, 1978.)

Carpinter was careful to differentiate between the two major forms of protection; quantitative controls, such as import licensing, and tariff subsidy arrangements.

"The least desirable form is quantitative controls, where protection and its costs and benefits can be hidden, where the arbitrary nature of controls can seriously distort price relativities, and where the effects of external competition can be completely nullified," he said.

Carpinter made it clear that



GOVERNMENT ADMINISTRATION

his comments were directed against the quantitative form of protection practised by New Zealand and not necessarily protectionism per se.

"If protection takes the form of increasing the supply of exports or of having efficient import substitution, the impact can be positive. Equally, if protection and the form chosen have the opposite effect on supply it is quite possible for protection to worsen the balance of payments and retard growth," he said.

The major constraint on economic growth in New Zealand has been our balance-of-payments problem. The balance-of-payments deficit can be rectified by increased exports and-or acceptable import substitution. But despite the widely-publicised New Zealand export boom, Carpinter found this country's export performance to be abysmal by world standards. He cited protectionism as the cause for this poor performance.

Even New Zealand's supposedly efficient agricultural sector was found wanting. Exporters of primary products failed to shift production quickly to meet changes in world demand. Growth in New Zealand's exports was below world growth rate levels and this country lost its market share.

New Zealand's primary products failed to keep pace with demand. And within product groupings, New Zealand's unit return failed to keep pace with average returns which suggests that either the products themselves or their marketing failed to adapt to market requirements, Carpinter said.

As a lack of demand was clearly not the cause of poor performance in the agricultural sector, Carpinter concluded that it must be related to the lack of profitability in producing these products.

Farm incomes, he pointed out, had fallen from 16 per cent of GNP in 1950 to 7 per cent in 1977.

Before 1965, agricultural production rose at the rate of 2½ to 3 per cent a year. Since then, growth has slowed to a standstill, with our 1972 peak production year waiting to be matched.

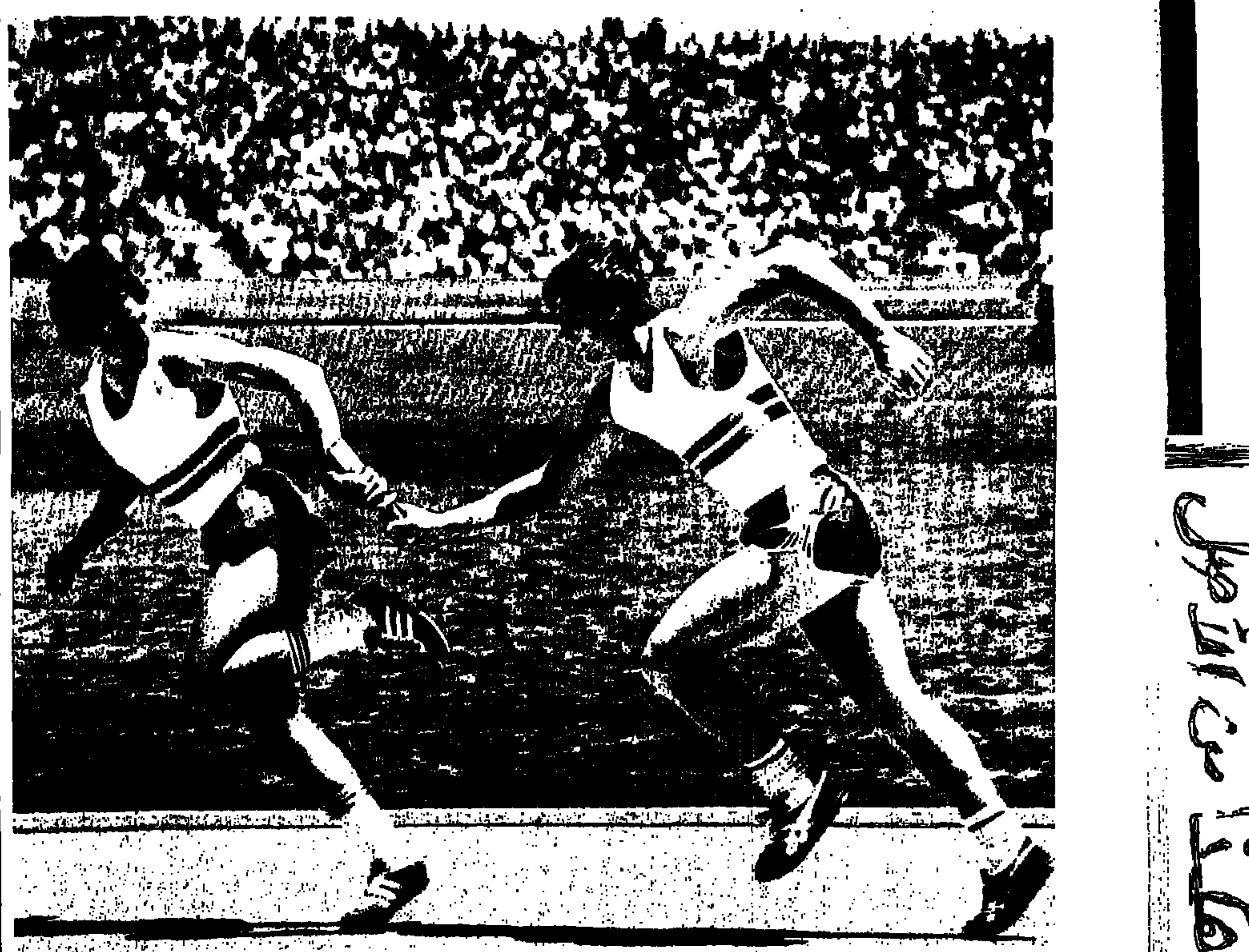
The cause of this decline, Carpinter said is import licensing.

New Zealand's level of tariff protection for manufacturers is more than three times the average for industrialised countries.

The negative effect of this high level of protection is that both the local consumer and local industry requiring inputs from these protected industries subsidise the protected manufacturer with high prices.

The absence of international competition leads to innovative stagnation and a comfortable hothouse in which local industry need not respond to international price signals (meaning that the cost to society of subsidising these protected industries will never be repaid by having them become net export earners, thus improving the balance of payments).

While Carpinter confined his analysis to the question of protection on the border against foreign imports, he concluded saying these arguments also pertained to domestic forms of protection that stifled competition, like New Zealand's licensed industries, its cartels, and monopolies.



EDITORIAL

LATE last year, six footballers were given the Rugby Union's blessing to go to South Africa when the NZRFU reversed its decision in October which refused permission for them to go.

But under the Gleneagles agreement, Commonwealth governments agreed to do all in their power to discourage sporting contacts with South Africa, and Foreign Minister Talboys sent a strongly worded letter to the rugby union, warning of the "serious international implications" of its decision to accept the South African invitations.

The rugby union was unmoved and last week declared that it saw no need to indicate disapproval of the trip to the six players. Further, NZRFU chief Ces Blazey argued that the controversy wasn't one for the rugby union to resolve; rather: "With respect, this is surely a matter for governments."

At the opening of the election campaign on October 30, Muldoon seemed at pains to spell out what a National Government would not do on the vexing question of sports ties with South Africa. "Decisions on international sporting contacts will be made not by the Government, as in many countries today, but by the individual sporting bodies themselves. The New Zealand Government will not withhold passports from its sportsmen, when they wish to travel overseas, nor will it withhold visas from visiting sportsmen who have broken no law. Those principles are embodied in the Gleneagles agreement at the insistence of New Zealand. We are not pro-apartheid, we are anti-apartheid, but equally we stand to preserve the freedom of New Zealanders and that is where we differe from the Labour Party."

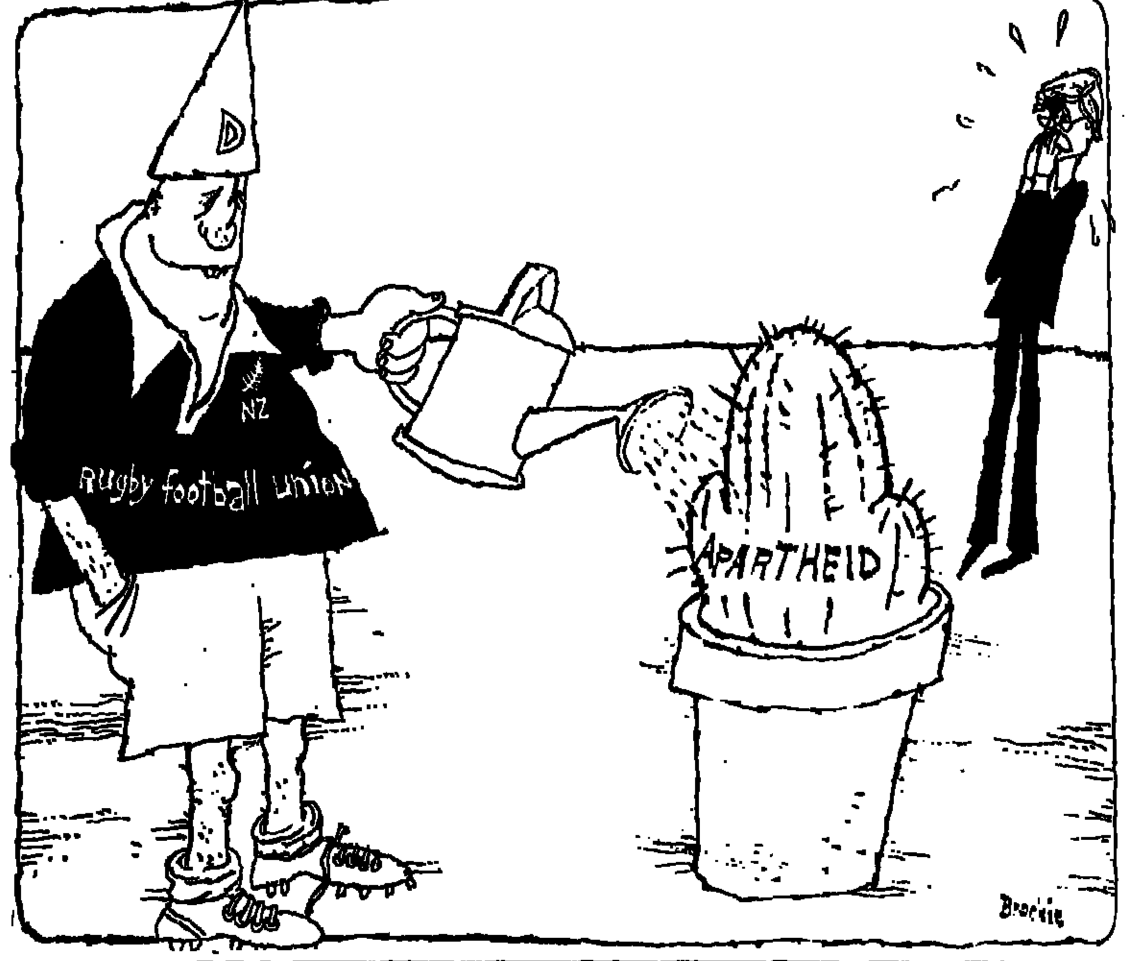
But even if the Gleneagles agreement required no more than that the Government exhort the NZRFU to prevent the All Blacks from going to South Africa, the Muldoon administration's efforts have been lamentably inadequate. Muldoon was both an author of and signatory to the agreement, but he has given no effective support to his Minister of Foreign Affairs. A number of press gallery journalists have put questions on the subject to him in writing through his press office, but the Prime Minister repeatedly has declined to be interviewed. Nor has he responded in writing. Acting Foreign Minister Adams-Schneider showed a similar lack of enthusiasm about answering questions last week. He refused two television interviews, and an impromptu press conference resulted only because he was collared by reporters in the corridors of Parliament Buildings.

On the other hand, the new Minister of Maori Affairs, Ben Couch, has declared he supports continued sporting ties with South Africa. And former MP Robert Fenton was reported as saying he did not know any MPs who wanted the Government to actively discourage the six All Blacks. He claimed, too, that the Prime Minister was lukewarm "over the whole thing".

The lack of support Muldoon is giving his deputy on apartheid sport is as damaging to Talboys' credibility as his unwelcome involvement in industrial relations matters hampered Peter Gordon's effectiveness last year. For example, Labour Minister Gordon was among those who had favoured a call by union and employer representatives on the Industrial Relations Council for an immediate moratorium on ballots. Caucus rejected the idea. Later the decision to force the Clerical Workers Union to go compulsory was announced by Muldoon at an election meeting in Hastings. Muldoon also gave reporters a statement attributed to Labour Minister Gordon that the union had had plenty of time to comply with the law and supply a list of names. Gordon would have won widespread respect if he had dissociated himself from the cynical and provocative action, and resigned.

It is Talboys' last term in Parliament. Surely he has nothing to lose by resigning from a Cabinet which is so half-hearted about its support for him. He, at least, could then retire with dignity.

Bob Edlin.



Beating inflation by investing in . . . furniture

IF you bought good pine furniture or quality tin toys in 1978 the value of your investment has probably kept well ahead of inflation. London Financial Times arts editor Antony Thorncroft reports on experts' predictions of the best buys in 1979.

WORRIED about the fluctuations in currencies? Disturbed by the vagaries of the stock markets? Disillusioned with the investment possibilities in property? Then you could be ready for art.

Works of art have been collected for their commercial value for centuries, but it is only in the last few years that the international traffic in antiques has made serious investment by companies, as well as individuals, a realistic proposition.

But art has its ups and downs as much as any stock exchange. The Japanese who rushed into the pictures of the Impressionists in the early 1970s must still be nursing paintings which are far from approaching even the pre-inflationary prices they paid for them, and the great silver boom of the same time must also have cost many speculators dear. There is potential in antiques, but only for the experts or the well-advised.

The great London salerooms acknowledge the investment element among their buyers but rarely pander to it. For them, works of art are best collected for the aesthetic pleasure they provide. Phillips, however, third in size but often first in initiative, each year asks its hundred top specialists for their tips of the areas most likely to appreciate in price during the next 12 months, as well as naming the items in their own fields which have shown the highest rises in the past year.

The best bet for 1979 is the best bet for 1978 — good quality furniture. But the second most popular choice, jewellery, takes the lead if it is linked with other small portables, such as stamps, coins, gold and silver boxes, miniatures, watches and small silver. Other choices include Old Master drawings, sporting guns, books, toys, art nouveau and deco, Victorian paintings, bracket clocks, fine old cars, Islamic pottery and musical instruments.

In more detail, this is how the various experts reviewed the pacesetters in their particular fields and their predictions for 1979.

In furniture, the objects most in demand were sets of chairs, oak of all periods, Edwardian and Victorian furniture, including reproductions, decorative continental, and Dutch marquetry. The tips for this year are 18th century mahogany and progressive furniture from 1900 onwards. The best hedges against inflation in furniture were reckoned to be good Victorian and Edwardian, and pine, in the under 500 pounds bracket; early oak in the 500-2500 pounds range; and over 2500 pounds Queen Anne and George I walnut, and all good period English furniture.

Among the paintings, the 1978 front runners were quality Victorian pictures, especially the academic and decorative; Dutch marines; English late 19th and early 20th century landscapes; signed and dated early English and Victorian watercolours; and period sporting and topographical prints. The tips include English 19th century paintings; English watercolours; and mezzotints, while the hedges are, at under 500 pounds, original artists' prints; up to 2500 pounds, Victorian painting and good topographical marine and sporting prints; and, at the higher levels, Dutch marine and 19th century interiors, and the best Old Master engravings and drawings.

In ceramics and glass, Phillips saw most price appreciation in coloured Worcester, Delft, slipware, Wedgwood figures, French paperweights, Masons ironstone, continental enamel boxes, and finely engraved glasses. It foresees potential for 20th century Royal Worcester figures and animals, 18th century continental figures, 19th century drinking glasses and fine cameo glass and 19th century engraved glass. The inflation hedges are 18th century English teawares and drinking glasses, plus Royal Worcester figures in the lowest price range; and unusual Delft, important 18th century Worcester, Wedgwood and Derby, cameo and fine stippled and Beilby enamelled glass in the middle and higher price ranges.

Elsewhere in the specialist items which should beat inflation, the Phillips experts favoured (at the lowest price levels) Victorian helmets and uniforms, car mascots, small ivories, English hand-made silver watches, pewter, George II teapots, and Ming bronze figures. Above 500 pounds, the best tips were quality tin toys, dolls, inro, netsuke, Victorian silver, bracket clocks and jade, while in excess of 2500 pounds ambitious investors might think about fine arms and old cars, early Islamic pottery, atlases, Lalique glass, candelabra and English 18th century clocks.

Of course all the London salerooms want to attract more buyers of works of art, especially now that all four main auction houses charge a 10 per cent buyer's premium on every lot sold. This premium has been introduced because the salerooms are competing furiously for goods, and now only dare ask 10 per cent, or even less, in commission from vendors.

Phillips tried to hold out against the buyer's charge, but found that it could not persuade sellers of large collections to use its auction house. Sothebys and Christies were able, because they were also collecting from purchasers, to quote very low commission charges to sellers and to appropriate many of the most attractive items. So Phillips also levies 10 per cent on both parties.

Even so, all four salerooms had a very good 1978. Phillips and Bonhams continue to operate throughout the year and are able to give yearend figures of 27.4 million pounds and 8.3 million pounds respectively, rises of 19 and [illegible] per cent. But they are now quite dwarfed by Sothebys and Christies which, because they close down in the summer, issue special figures for the autumn sales season.

Between September and Christmas, Sothebys worldwide brought in 71.75 million pounds, a rise of 38 per cent on the corresponding months of 1977, while Christies achieved a 40.7 per cent gain to 41 million pounds.

Both the major salerooms rely greatly on their overseas sales to maintain their extraordinary growth rates, but in recent months, for Sothebys, it has been its British salerooms that have made most impact, showing a 58 per cent increase to 30.6 million pounds as against a 13.9 per cent improvement in North America, to 24 million pounds. In recent years, it seemed likely that New York would replace London as Sotheby's most important centre; this now lies in the more distant future.

For Christies New York, where it has been active for only a year, still has tremendous potential, expanding sales in the autumn by 100 per cent to 11.9 million pounds. Between them, Sothebys and Christies not only dominate the fine art world in Britain but, through their growing international links, they make antiques a multinational market and one well able to withstand setbacks and recessions in individual countries.

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THERE'S this Pacific paradise, see, where "unemployment is virtually unheard of. So is urban blight. Here everything looks like it was just washed by a spring rain. Graffiti? Most of our people think that's an Italian dish."

It's a paradise with "almost as many golf courses as gas stations", where you can "stroll on subtropical beaches, wiggle your toes in pure white sand and swim in warm, crystal waters." Or you might prefer to "discover the charm of an authentic Scottish hamlet."

Further, "You'll see primeval forests and unexplored valleys. Hot springs and fjords and waterfalls by the thousands. All this in a country no bigger than California."

And another surprise: "Rudeness isn't known here...tourists are treated like honoured guests. Almost like house guests. And one of the nicest ways to tour the country is with the people who live here."

This glowing description of an unspoiled world appears beneath the headline "We've read about smog, but we've never seen it."

This smogless country where unemployment is virtually unheard of is none other than New Zealand, and the description can be found in an Air New Zealand advertisement in the prestigious New Yorker.

We know the air transport business has become fiercely competitive, but Air New Zealand might be better advised to try cheap fares rather than cheap promises.

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BUSINESSMEN and economists have long suspected that the reason the Government fails to publicise its economic policy is that it doesn't have one.

These suspicions were reinforced last week in a few pointed remarks from former think-tanker and BNZ economist Len Bayliss.

Speaking to the ANZAAS Congress on New Zealand's monetary policy, Bayliss let the cat out of the bag.

The reason the New Zealand Government should not follow the overseas practice of publicly announcing its target for growth in the money supply is that our Government lacks the experience to do so, he said. Any such announcement, should it be proven wrong, would sully the reputation of the Reserve Bank, Bayliss warned.

Bayliss said he was generally in favour of publicly-announced money supply targets. These engendered a climate of public opinion and assisting wage and budgetary restraints. But targets were not for New Zealand.

Apart from governmental ineptitude, Bayliss pointed to New Zealand's financial press, which he claimed was ignorant of money supply concepts.

If Bayliss was comparing local press coverage with the frequently brilliant public debate on monetary matters in Britain, the United States, and Germany, he should have added that governmental frankness in those countries fosters debate with published targets and a wealth of other economic information, while our Treasury and Reserve Bank feed the press with information that is out of date when printed, saving up their prime tidbits of information for selective political use by their political masters.

Bayliss did call for more published information from the Government to fuel public debates. But the examples he cited were ex post facto bits of information such as the public accounts, rather than information on which the public could base investment decisions, such as a monetary targets.

Nor did Bayliss point out the economic advantages of governmental frankness. Governmental frankness, including statements of policy intent, have created a climate of rational expectations in Germany and the United States which might account for the informed long-range investment planning and good industrial relations found in these countries.

By contrast, New Zealand businessmen have no inkling of which way their Government is likely to jump next — now that the season of election bribery is over. This might explain industry's reluctance to invest in new equipment, raw material stockpiles, or take on new labour — surprising now that the lending institutions are awash with liquidity.

Lacking a clear statement of governmental intent, industry will fall on rumour and speculation, travelling its traditional stop-start, crash-bang course, from hedging against devaluation to slowing today's production in anticipation of tomorrow's tax break or incentive.

The banks are bulging with money at lower than last year's interest rates. The climate is ripe for investment — provided one is a gambler or seer with foreknowledge of which pressure group will gain Rob Muldoon's ear and which industry will be turned on or off like a tap.

Could be no one is investing because no one has that foreknowledge. And Government isn't telling (according to Bayliss, at least, and he should know) because it isn't sufficiently qualified to predict the growth in the money supply in spite of all its powers to manipulate the economy.

All of which makes us wonder if we wouldn't be better served by the invisible and omnipotent hand of Adam Smith, rather than by an ill-informed Government manipulator?

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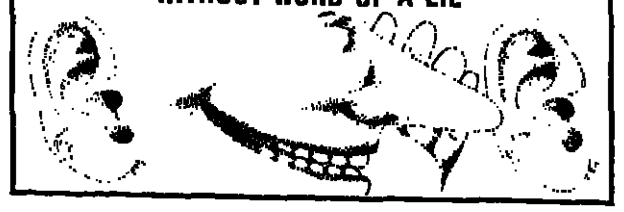
MAUI gas will improve this country's balance of payments by $100 million in the first year of production and $150 million in the second year..., or so the PM told us in his state of the nation speech at Orewa.

Muldoon's optimism apparently is not shared by at least a few highly-placed observers of the energy situation who suspect he has neglected to take into account such factors as interest rates and exchange losses on foreign loans used to finance the $1 billion project.

Nor, they say, did he calculate just how much of the private oil company's profits would be repatriated.

They suspect, in fact, that as far as the balance of payments is concerned, New Zealand might have been better to have left Maui undiscovered.

WITHOUT WORD OF A LIE



Energy surplus

SURE, we have a predicted excess of electricity generation capacity; but we had one 15 years ago, too — and Comalco was the result! Since the Germans (and other potential energy customers) aren't fools, they're not going to fall into the trap that NZAS was forced into. So, if they're going to be expected to pay a "reasonable" price for their energy, why should they bother to come here in the first place?

We must not forget that the "surplus" generating capacity lies generally in our expensive, or old, North Island thermal electricity generation plant, which would be the first to be shut down. It is this capacity that would be displaced by hydroelectricity from the South Island, via the existing or new Cook Strait cable. The "surplus" power is therefore not "cheap" — it is in fact the most expensive power that we generate! If the rest of the country is not to be expected to subsidise new energy-demanding industries, the price to be charged for such power must be at least a reasonable proportion of the "real" cost.

The current situation is a direct consequence of short-sighted decisions over the last ten or fifteen years. Comalco, the Committee to Review Power Requirements, and the Government can all be blamed, but what's the point? If we want to have a meaningful national energy policy, let it be one which aims at serving and optimising New Zealands future, not one that is used to disguise economically and politically inept decisions of the past.

N J Peet,
Senior lecturer,
Dept Chemical Engineering,
University of Canterbury.

THE front page story on the Comalco-Cook Strait cable (December 12, 1978) could do with a little more filling out. The fundamental point that emerges from the recent announcements on ways and means of disposing of the surplus South Island electricity is, quite simply, that New Zealand has over-invested in electricity generation. Simple economics says that unless there is at least promise of a full return on an investment in any particular project, that investment is not justified in the absence of any over-riding social or other non-economic argument.

There seem never to have been any comprehensive economic analyses of the power plan, despite the fact that in recent years it has accounted for over 30 per cent of Government capital expenditure. At the Royal Commission on Nuclear Power, Treasury officials could say virtually nothing on this issue, to the surprise and consternation of many present. However, many people would agree that the simplest method of ensuring that new investment in electricity is economically justified would be to charge for electricity at marginal costs, ie the cost of production in the newest stations, or those under construction. This is a policy advocated by the original Holmes Task Force, the International Energy Agency, and in oblique fashion in Goals and Guidelines. It is generally considered that marginal costing would raise electricity prices a further 30-50 per cent, and to ensure that investment in electricity is justified in economic terms, we should be assessing the free market demand for electricity at these prices. Currently, valuable capital, or expensive foreign loans, are being squandered in building power stations to produce electricity that will be sold at below costs of production.

It is already obvious that, at current prices, demand for increased supplies of electricity is limited. The heavy industrial concerns that provided so much of the market growth over the last decade seem to have lost interest, while demographic shifts and the rise of alternative sources of domestic heat have curtailed growth in the domestic sector. And anyway, growth over the period 1967-76 was stimulated by a rapid decline in the real price of electricity. Adoption of marginal costing would further curtail growth in electricity demand, and the market message would be to switch investment away from electricity supply.

Considering that New Zealand is already one of the most highly electrified countries in the world, in terms of electricity consumed per unit of GNP, and delivers a higher proportion of consumer energy in the form of electricity than any country except Norway, such a message can hardly be considered surprising. If we used electricity to the maximum allowed by present technology in our energy problem area, which is of course transport, we would make only limited impact on the looming surplus, and there is even electricity available to totally electrify transport, should this become possible and economically feasible. Indeed there is an argument for switching the electricity used in domestic water heating to off-peak transport use and substituting one of several much cheaper forms of low grade heat, should the private electric vehicle become firmly established.

It is against this background that the trendy stirrers of the environmental lobby find it difficult — nay, impossible — to understand the Government's unshakeable commitment to throw up to $1000 million into the Clutha scheme F, while cutting electricity tariffs to energy intensive industries to stimulate demand for subsidised electricity. The relevant Government departments appear not to have done any worthwhile analyses on alternative irrigation-electricity schemes for the Clutha, as a recent series of shovel shakings in Straight Furrow makes clear. There have been no suggestions that the high dam at Clyde might be scaled down to ease the surplus of unsaleable electricity.

Can anyone, though preferably someone from Government, justify continuing investing in scheme F while electricity has to be given away at below costs of production? Or should I conclude that political resolve and fossilised thinking is mightier than economic reason?

When the Clutha fiasco has been answered, then it will be possible to attack the Comalco-Cook Strait cable-upper Waitaki power surplus problem.

Denis Hocking,
for Friends of the Earth.

Visa: it's a debit card

IN the December 20 issue of NBR, Peter V O'Brien, commenting on the proposed Commerce Commission enquiry into Visa card, constantly alludes to Visa cards as being credit cards, an assertion contrary to the truth in New Zealand. In most other countries where Visa operates, it is a true credit card but the BNZ has introduced Visa into this country as a debit card.

Whereas holders of credit cards, eg travel and entertainment cards such as Diners Club and American Express, enjoy credit on purchases of almost 60 days, a debit card holder has his or her demand deposit account debited almost immediately in exactly the same manner as a cheque. Since the advantages and disadvantages of each type of plastic card are quite dissimilar, it is disappointing that Mr O'Brien either was unaware of these differences, or saw fit not to distinguish between them.

S D Murphy,
Auckland.

Ratepayers demand relief in wake of revaluation

by Bute Hewes

AUCKLAND faces the prospect in 1979 of learning the answer to the ancient riddle about what happens when an irresistible force meets and immovable object.

The irresistible force in this case is the inevitable demand for higher rates on homes. The immovable object is the sheer inability of many property-owners to pay.

Young couples heavily mortgaged at high interest, elderly people who put their life savings into homes for their old age, are already finding it costs more than they can afford simply to live in their own houses.

The problem began a year ago when Auckland City Council revalued properties in its area and began assessing rates on the new valuations.

When rate demands arrived later in the year, many home-owners found they were up by 50 or 60 per cent. In some instances, they had risen by 100 per cent or even more.

The protest began and has kept up unabated. It has made Aucklanders, ratepayers and councillors alike, more acutely aware that their city has problems unique in New Zealand.

One of these, in a word much used by the Mayor, Sir Dove-Myer Robinson, is fragmentation.

Mayor Robbie's council controls the original City of Auckland in which 150,000 people live. Another 650,000 live in 20 separate cities and boroughs, each with its own council, making up what is loosely known as Metropolitan Auckland.

This fragmentation, Robbie firmly asserts, causes wasteful duplication of local body services. Amalgamation would tidy up Auckland, municipally speaking, into a much more economic and efficient city.

That may be a long-term step towards reducing rates, but it cannot happen quickly enough to bring the immediate relief ratepayers are seeking. They have looked for other solutions.

One suggestion is the abolition of the city council's own traffic department. The Ministry of Transport should do the job, ratepayers say, as it does elsewhere. That would save a cool $4.5 million of rates money.

Councillors resist this, claiming that revenue from traffic fines almost covers the cost. Indeed, if they can only fine a few more motorists, the traffic department will actually become a profit-maker. It is not an argument that enraptures ratepayers in this car-owning city.

Another suggestion is that the city council should relinquish some of the amenities it provides not only for its own residents but for the whole of Auckland.

Long ago, when Auckland was much smaller, it established its zoo and art gallery. It is proud of both. But they are still maintained out of city rates, to the tune of about $3 million a year, and used by people from 20 other cities and boroughs as well.

So why not spread that cost fairly among all councils, ratepayers ask. The Auckland Regional Authority, they point out, is the obvious body to run such amenities, making them a charge on all Auckland.

That would be possible only if the ARA were willing. It is not. After all, it has problems enough of its own, without taking on more.

Ratepayers have had little contact with the ARA, largely because it levies its money from city and borough councils, not directly from property owners. These levies are built into rate demands, and this year 16 cents of each rates dollar collected by the city council will be passed on to the ARA.

Aucklanders have become aware of the ARA mainly through its buses. Fares go up, causing fewer people to go by bus, so fares go up again in an attempt to cover lost revenue.

Buses are the biggest single item in the ARA budget, running on $8.5 million of rates money to meet operating losses. Next year, they will take $11.5 million, and the over-burdened ratepayers are not happy about that.

The confused ratepayers, and even some new councillors, find it hard to grasp the complexities of why all the money is needed, how it is raised, and how it is shared out.

But one fact has stood out, and more than anything has infuriated the home-owners who faced steep rate increases: owners of commercial properties actually paid an average of 20 per cent less in 1978 rates than in the previous year.

MAYOR ROBBIE . . . fragmentation.

This was one result of property revaluation. Auckland, it seems, is oversupplied with big office blocks, many of them owned by banks and insurance companies, so the paper values of such buildings were reduced.

That left residential ratepayers, with values of their homes increased, footing an even bigger proportion of the total rates bill. No councillor has been able to explain, to the satisfaction of angry ratepayers, how this came about.

The demand has grown for differential rating, already widely and successfully adopted by other New Zealand cities. But councillors are cool towards the idea, for reasons which they have also yet to explain.

The councillors are pinning their main hopes on central government to devise ways of relieving pressure on ratepayers. But the word from Wellington has not been encouraging.

Some far-sighted councillors believe that a better relationship between central and local government — not necessarily financial — may be the eventual solution to the problem.

Parliament has been too ready to impose new obligations on councils, binding them to carry out statutory duties in certain ways. Too often the result has been that councils are lumbered with bureaucracy and festooned with red tape imported from Wellington.

Councillors, who are usually part-time politicians and full-time businessmen, would prefer to run local bodies on sounder business management principles, if only Parliament would give them latitude to do so.

It is to Parliament, probably, that ratepayers and councillors will finally go, not as enemies but as allies, to seek a new deal for local government. And since November 25, the chances seem marginally better that they will get it.

Road cartage law: anomalies under investigation

Belinda Gillespie

"YOU can't get it right first time," said Transport Minister Colin McLachlan of the Road User Charges Act, passed in 1977. A pre-election promise to look at anomalies in the law has resulted in the setting up of an industry-government working party which first met early in December.

The five-member committee — one each from the Ministry of Works, Transport, Treasury, and the Prime Minister's Department, and one from the Road Transport Association — will consider all aspects of the Road User Charges Act. The transport industry is to prepare a paper towards a report which will be completed by February and circulated to concerned organisations for comment.

Bernard Gresham, executive-director of the Road Transport Association, is disappointed with the omission of some areas from the terms of reference of the working party, particularly the matter of governmental contribution to National Road Board revenue. As things stand, the Government will pay nothing from 1980 on, though previously there has been some contribution from the Consolidated Fund.

The fact that central Government benefits from good roads is generally recognised, and in other countries, as well as New Zealand, the Government pays a share. The RTA and others including the previous Opposition have been pushing for a governmental contribution amounting to one sixth of NRB revenue. But the Ministry of Transport has declared this to be the subject of a political decision outside the terms of reference of the working party.

Though all subscribe to the "user pays" principle behind the Act, anomalies and problems of administration and enforcement have been the subject of gripes by the transport industry since its operation began.

Bob Martin, president of the RTA, covered some of the complaints at the annual conference in Rotorua. The "double-fisted move" of extending the road-rail competition limit to 150km and imposing the new road user charges had brought "radical upheaval" to the industry.

The new limit meant open slather to some operators, who began to muscle in on each other's territory in their eagerness to get a slice of the 150km cake. Cartage rates began to fluctuate wildly, and "fly-by-night operators popped up from nowhere".

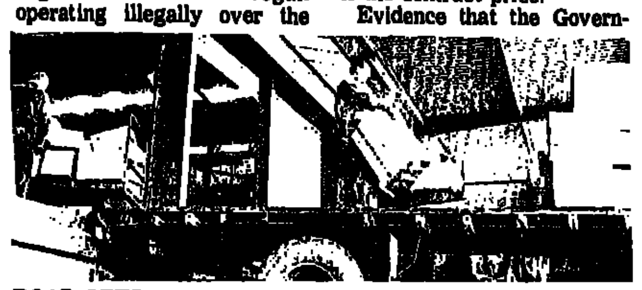
A minority, said Martin, found refuge in the maze of regulations and began operating illegally over the limit, while law enforcement officers found it more difficult than ever successfully to prosecute them.

This lack of successful prosecution, despite flagrant breaches of the law, is counterbalanced by a plethora of prosecutions for offences under the Road User Charges Act.

Minister McLachlan told delegates at the conference that the Government was not joking about the need to maintain the two new sets of control, and drew their attention to provisions under the Act for greatly increased fines for offenders.

A December "Eyewitness" programme on the 150km limit focussed particularly on the role of the Railways.

Gresham's view, shared by others in the industry, is that the dual roles of the Railways should be clearly identified. As a "social service", the carrying of passengers will inevitably run at a loss, which should be subsidised out of the public purse. The balance, however, should be a competitive and commercially viable operation.



ROAD OPERATORS...would benefit from Railways 'shakeup'

Road transport would benefit from a "shakeup" in the Railways, which at present overcharges in areas where it has a monopoly creating pressure on road operators to act illegally. In others, as a subsidised operation, it undercuts.

The financial troubles of the Nationwide Transport Company, for example, were not helped by its loss of a contract to carry Toyotas thanks to the Railways' undercutting of the contract price.

Evidence that the Government is taking the enforcement of the law seriously is the MOT task force, now operating in the Poverty Bay and Auckland areas. The big guns have been brought to bear on well-organised offenders who previously got away with it because individual traffic officers didn't have time to prepare detailed cases against them.

Success of the enforcement policy has been assessed in terms of more than 26,000 vehicles stopped and more than 8000 offence notices issued in the six months since the law took effect, with a consequent downturn in the number of tickets handed out in proportion to trucks stopped.

Business is picking up again for the Railways, though whether this can be put down to MOT enforcement tactics is disputed by some in the road transport industry.

In the last two months of 1978, freight had increased over and above the usual improvement due to Christmas trade.

On the industry side, some operators are unhappy with the new enforcement policy.

Gresham says the RTA is in the delicate position of having to strike a balance between supporting enforcement of the law where it has been flouted, and protecting individual members' interests.

Where enforcement ends and harrassment begins is a sticky question. That's the point at which the RTA feels obliged to protect its members.

There have been claims that trucks have been delayed for up to 45 minutes in dangerous positions. The RTA has instructed its members that 15 minutes is a fair delay, after which time drivers should get back into their cabs and drive off.

Meanwhile, some drivers have retaliated by pulling up in such a way that their trailers are left out in the mainstream of traffic, forcing inspecting traffic officers into some danger.

Only one truck should be stopped at a time, says the RTA, and carriers' loads should be treated with respect.

Operators who are responsible for the freight they carry are irked by large numbers of people scrambling over and interfering with their loads. They claim also that railways inspectors and, in at least one case a Post and Telegraph vehicle driven by a transport official, have been involved in inspections.

While he supports law enforcement against illegal operators who stretch the 150km limit to their advantage, Gresham points out that the time-consuming legal processes involved have so far prevented any such convictions from being made. Most of the law enforcement energy has been expended on the road user tax side, and this, says Gresham, could largely be avoided if the law were changed.

As well as requiring a task force to implement it, the present system of prepayment for licences has caused liquidity problems for some firms. Further problems are caused by the difficulties of assessing the distance to be travelled, and the likelihood of distance licences expiring in transit.

While the long-term objective of the association is to study a tax system related to fuel at source, from a recent industry survey it seems that a system which combines pre- and post- payment of road tax is the best.

One aspect of law enforcement would become redundant, and liquidity problems overcome, if the law were changed so that an operator could buy a licence for, say, 5000km for a quarter.

Part could be prepaid, and at the end of the quarter the operator could pay the shortfall. Similarly, weight could be assessed for the quarter, instead of being changed every 1000km as is now the case.

As well as looking at ways of making the law less cumbersome, the working party will want to change the system so that penalties are more equitable.

When Nationwide Transport, one of New Zealand's larger operators, got off without a fine and a system of time payment for its unpaid revenue amounting to $214,000, there was angry reaction throughout the industry. The November editorial of Transport News said that the lack of uniformity for penalties was the most "bitter pill" the industry had had to swallow.

While the Nationwide case wasn't mentioned, examples were given of operators fined twice as much, for the same offence, from one area to another.

Another bee in the RTA's bonnet is the distance basis of the new road charges, which places a burden on rural operators.

An application for increases in road cartage rates was submitted by the association to the Secretary of Transport in March last year. The application's scope was recovery of road tax increases brought about by the Road User Charges Act, which dumped mileage tax and heavy traffic licences in favour of a charge for the use of roads by heavy vehicles.

The MOT agreed to an increase of 4.5 per cent in maximum rates in rural and route cartage rate schedules, and of 2.1 per cent in town cartage rates. But it did not go along with the transport industry's request to put rural route rates on a sliding scale in order to achieve equitability for distance travelled.

MIKE MINOGUE . . . criticism.

SIR BASIL ARTHUR . . . influential.

The RTA appealed against the decision, which applied from April. It argued that a bigger increase was justified, and continued to press for a sliding scale.

The Ministry of Transport sat on the appeal till December 1, when the secretary's comments were finally sent to the RTA. With a hearing set for December 13, time was short for the RTA to prepare its case.

Gresham declared, however, that the association was generally pleased with the outcome of the appeal, which has been adjourned for further consideration. If the authority is unable to make a decision, the parties involved will be directed to come to an agreement — a sign, in Gresham's view, that "change is in the wind".

The Road Transport Association is pinning its hopes for significant changes in the law on the composition of the new cabinet.

The return of Colin McLachlan as Minister was anticipated and welcomed by the industry, which has perceived in him an increasing desire to understand its view rather than stay under the thumb of Cabinet, according to Gresham.

But McLachlan's was a voice in the wilderness in the previous Cabinet, whose members, apart from Peter Gordon, were considered apathetic in transport matters.

New members Merv Wellington, Ben Couch, and Warren Cooper, however, were all in the Caucus Transport Committee and are thought to be well-informed on transport matters, having been deeply involved in the Road User Charges Act.

Mike Minogue has publicly criticised the Act for its administrative and enforcement difficulties and suggested that it is due for urgent improvement.

On the Opposition side, Sir Basil Arthur and Eddie Isbey, strong on transport and influential in the Labour Party, will probably continue to press for changes to the Act.

New fare deal: cloud around cost to Air NZ

Special Correspondent

HOW much the Australian Government shut-out of Air New Zealand from the Australia-United States low fares will cost the national carrier has been obscured by its own erratic release of information.

Air New Zealand began by saying its Australia-originating traffic represented about 10 per cent of its total traffic between the South Pacific and the United States.

Australian sources were unequivocal that the proportion was nearer 25 per cent — around two and a half DC-10 loads a week. These sources say the 10 per cent claim was a naive attempt to bluff the Australian Government and Qantas into thinking the business was worth less than it was — as if they didn't know.

An Air New Zealand spokesman even told one newspaper it didn't know what the figure was, a demonstrably foolish statement.

The latest claim by the airline is that Australia-originating traffic to the United States represents about 10 per cent of long-haul Pacific revenue, which last year was $64 million.

The spokesman said that the actual number of passengers represented would be more than 10 per cent because most of them paid "low yield" fares.

Why low yield? Well, one of the reasons Qantas is so cock-a-hoop about the shut-out of Air New Zealand is that it claims the New Zealanders, in cahoots with the Australian wholesaler, Jetset Tours, have been ripping off the Australian market.

Otherwise, why do Australians in such numbers want to fly from Australia to the United States the long way — that is, through Auckland?

Some Australian sources say it is because Air New Zealand and Jetset have an unorthodox marketing arrangement which gives passengers fares below those approved by the New Zealand and Australian Governments.

It is accepted that unorthodox marketing arrangements involving airlines are rife in Australia, but that the Air New Zealand-Jetset set-up is the one that results in the most cut-throat package.

But if Air New Zealand is hardly justified in whinging, Qantas' indignation could hardly be termed righteous. There is probably not an airline operating out of Australia which should cast the first stone. The Australian Government would be wisest, perhaps, if it cleaned up the industry as the United States Government has largely done by ferocious penalties for any under-counter dealing.

But the impression that the Australian Government has been specially vindictive towards Air New Zealand is a wrong one. The airline has just become another victim of Australia's new aviation policy which is based on exclusive bilateral arrangements between Australia and any destination. It is a trade-off between Qantas and the national carrier of any destination country in a bid to capture all the point-to-point traffic between them, with any third parties eliminated.

For example, only Qantas and British Airways will be given access to low-fare traffic between Australia and Britain; and the low fares will not be available for any stop-overs at places such as Hong Kong and Singapore or the United States. This shuts Singapore Airlines out of the Australia-Britain traffic because it cannot legally sell low fares for that route in Australia.

The Australian Government has also told some European Governments that they accept the point-to-point bilateral policy or they will be shut out of Australia. The Dutch and Yugoslav Governments, for example, have been negotiating an Australian proposal that their national carriers (KLM and JAT) fly low fares between Holland and Australia and Yugoslavia and Australia only, on the straight bilateral agreement.

While both airlines are said to be resisting the proposal, Australia has an enormous geographical advantage. It can stop flying to Holland and Yugoslavia, and cancel the landing rights in Australia for KLM and JAT, knowing that all the ethnic travel would be picked up by Qantas or British Airways between Australia and Europe. The passengers would all have to go via London to get the low fares.

This policy is not only a long stride down the protectionist road, but is moving in precisely the opposite direction to the current thrust for more competition in international commercial aviation, initiated by the United States.

If the Australian policy is to be defeated, it will be by other more powerful governments than New Zealand's, which may be able to use trading pressures. One of the amusing sidelights to the current argument was the suggestion in the Auckland Star that New Zealand could retaliate by ending the pool agreement between Air New Zealand and Qantas across the Tasman, and by refusing to continue the present charter arrangement between the two airlines for services between Australia and Wellington. In the case of the pool arrangement, the effect on Qantas would be minimal and the ending the charter could backfire to New Zealand's enormous disadvantage by Australia consequently refusing to accept any flights out of Wellington.

Air New Zealand's chief executive Morrie Davis, an astute operator, has consequently been piously denying that the airline would be so vindictive as to attempt any retaliation — underlining the fact that it is virtually powerless to do so.

One revelation from close scrutiny of the present controversy is that airline public relations — backed of course by airline managements — are often unhealthily cynical in their bids for public support of national carriers. The overall issues are usually so complex that it is impossible for the ordinary member of the public to fully understand them without special study, and the public relations operators often play on this ignorance. Almost invariably the airlines get away with what they can, using power when they have it, manipulating the law when they can get away with it, and crying "but everybody does it" when caught. An example is Australia's avoidance of attempting to force its new policy on United States airlines.

Qantas has been a ruthless negotiator for self-interest over the years.

But what should be most disconcerting to the New Zealand traveller is that since the absorption of NAC, he could be called upon to pay even higher domestic fares than those at present, which are among the highest in the world — almost certainly the highest in terms of average income.

The economics of the domestic service already seem extraordinary in the context of world aviation. Any airline operating at 90 per cent plus load factor on its prime routes without any widely available promotional fares, at normal fares among the highest in the world, should be making huge profits or must be hugely inefficient.

And efficiency is something that should be worth a look. In 1977, the comparative productivity in terms of passenger-kilometres per staff member for 15 IATA airlines was: Pan American 1,293,128; CP Air 1,158,967; Japan Air Lines 1,137,185; Qantas 887,795; KLM 737,164; Alitalia 712,850; Air New Zealand 690,401; Garuda 676,026; South African Airways 625,890; Lufthansa 575,621; UTA 560,863; British Airways 554,550 (estimate); Philippine Airlines 481,576; Air India 408,678; Air Niugini 233,219.


MORRIE DAVIS...astute operator.

Air New Zealand, on this formula, was only about half as productive as Pan American, and a long way behind Qantas. But what would be most interesting is the productivity figure following the NAC takeover.

Another continuing criticism of Air New Zealand international operations is its lack of regard for the tourism industry in this country — which is in worse shape than any time since it became a major economic force in the 1960s.

The airline seems to be showing more concern with taking Australians to the United States than with bringing either Australians or Americans to New Zealand. Inbound tour operators have complained that it is difficult to get seats for groups from the United States because of Australian Jetset groups which are of no benefit to the New Zealand industry.

Overall, the tourist industry has been earning a declining amount of overseas exchange, down to $157.6 million for the year ended last October.

While the travel industry itself has always claimed it is unfair to match travel outgoings spent by New Zealanders overseas against earnings by the industry here, no government with overseas exchange problems the size of New Zealand's can ignore the disparity. Expenditure on overseas travel is now around $445 million and growing fast.

While arrivals from all countries for the year ended October 1978 are down by 2.8 per cent, departures of New Zealanders temporarily for all destinations were up 19.9 per cent.

It is now taken for granted throughout the travel industry in New Zealand that the Government will soon move to curb expenditure overseas by New Zealanders. The only question is how will it do it?

Best bet by a long way is through currency restrictions.

NZR: running at a loss, ninth year in a row

by Bob Stott

NEW ZEALAND Railways accounts for this financial year are bound to record a deficit for the ninth year in succession. For each of the past eight years, the "net earnings before interest" figure has been a loss: 1978, $37.8 million; 1977, $12 million; 1976, $63 million; 1975, $45.3 million; 1974, $8.6 million; 1973, $3.4 million; 1972, $4.3 million; 1971, $7.6 million.

In 1970 the result was a surplus of $5.6 million and the year before that a surplus of $3.5 million.

The annual result in the years before that was usually a surplus, with only occasional deficits. That pattern prevailed through the 1950s and 1960s.

In recent months Railways goods traffic has fallen away in line with the generally recessive conditions, while wage costs have climbed at a rate at least equal to the general rate of inflation.

The alternative courses of action are few — rates and fares can be increased until the books balance, services can be cut, or a deficit can be budgeted for.

The Government has opted for a bit of each — some rate increases, some service cutbacks and a lot of deficit.

Why a railway loses money so easily is not widely understood. The disadvantage of the railway system is that it is an entity unlike any other mode of transport, and has fixed costs which are high and can be easily identified.

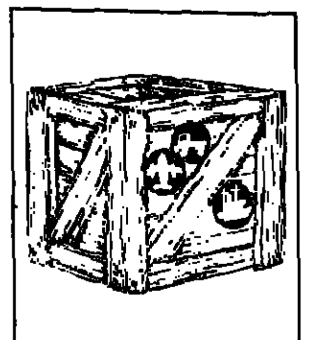
A railway comprises land and buildings, tracks and associated structures (bridges, tunnels, and so on) trains and signals, workshops and offices . . . and staff.

Most of a railway's considerable resources and people are necessary before even a handful of trains can run, but traffic can be increased to a marked degree without a corresponding increase in resources and staff.

Viaducts need painting whether they carry six or 60 trains a day. The extra cost of running more trains is slight indeed.

Figures showing as a percentage the main items of NZR expenditure in the year to March 31, 1978, help make the point: Wages, 57.5 per cent; other personnel costs, 4.6 per cent; fuel — for locomotives, road vehicles and ferries, 6.1 per cent; stores and materials, 14.3 per cent; depreciation, 6.4 per cent; miscellaneous, 11.1 per cent.

More than sixty per cent of total railway expenditure goes


TRANSPORT

on wages, much of it to people who maintain track, or paint stations, or repair signals and so on.

By contrast, 1976 figures show a typical rural road carrier's expenditure as 16.8 per cent on fuel, 0.5 per cent on oil, 5.1 per cent on tyres, 16.3 per cent on repairs, 3.6 per cent on licences and insurance, 29.6 per cent on drivers' wages, 13.5 per cent on vehicle depreciation, 8.6 per cent on office salaries and 6.2 per cent miscellaneous.

These percentages will be shifted as the road user charges are fully implemented, but these charges are not fixed costs — they are levied on vehicles actually in use. If traffic falls, so does a carrier's bill for the charges.

Note the difference between road and rail expenditure on fuel — with rail the figure is 6.1 per cent; with road, 16.8 per cent. If more trains are run, more fuel is used, but as a percentage of total costs fuel is a minor item compared with the road carrier's operation. Conversely, running fewer trains cuts the NZR fuel bill, but this is of no real account. With the road carrier, running fewer trucks makes a difference.

A different picture would emerge if the total costs of the road system could be compared with the total rail cost.

There is an enormous investment in roads and service stations, carriers' trucks and private cars, and the Ministry of Transport says road accidents in 1978 were running at a rate equal to an annual cost of $160 million. Beside that accident cost figure the NZR loss pales into insignificance . . . almost.

New Zealand has joint venture airports, where costs are shared by local and central government. If the full cost of buying land, building runways and terminals, installing and operating air traffic control radar and other aids was charged to the airlines, would air transport be profitable?

If harbour boards lost their incomes from endowment land and had to recover all costs from users, would sea transport be profitable?

A better appreciation of the railways' achievement would be gained if the NZR produced a set of annual accounts tailored more to the unique characteristic of rail systems and less to traditional bookkeeping.

It all depends on one's viewpoint — a railway either runs at an annual deficit of say $50 million, or it provides $50 million worth of subsidies to the public at large.

For instance, the 1978 annual report notes "The loss on railway suburban services was $6,383,000." Thus during the year the NZR made a $6.4 million grant to people who have no car and must rely on public transport, and people who have a car but are willing to forgo its use.

Because the information in NZR annual reports is rather sketchy it is not possible to give specific examples, but in 1978 many specific goods transport tasks were performed at a rate less than cost. When such low cost transport is confined to a specific route or region it is dubbed regional development and regarded as a fine thing. When it is lumped into a national total it's a railway deficit and an indication of the outmoded nature of rail transport and an example of the inefficiency of State enterprises.

The NZR should produce not only its statutory report to Parliament, but also an annual report to its shareholders — the public — explaining some of these points.

It would be necessary to separate the costs of services which the NZR is obliged by the community to run at less that cost (the suburban services for example) and the result might be an end-of-year picture not nearly as bleak. Such a move could lead to a wider re-thinking. With the "social" services out of the way attainable financial targets could be more easily set, a move beneficial in both the general PR and staff morale fields.

The final step would be to pay NZR from some other account for providing social services, either urban or rural. This is the path British Rail has embarked on.

Only one NZ vintner signs up for wine expo

BILLED as the first truly international wine expo since the turn of the century, the World Wine Expo in Singapore in May is expected to attract up to 400 exhibitors. But so far only one New Zealand winemaker has signed up — Montana.

Other New Zealand winemakers are cribbing at the $10,500 price tag charged by the organisers for the 2½ week show. The organisers, Australia based Expo of World Wines Pty Ltd, provide travel to Singapore, accommodation and an exhibitors' stall and freezing for cases of wine for this fee. And the New Zealand exhibitor can write off 150 per cent of his expenses on the export incentive scheme, while the Australian exhibitor can write off only 80 per cent of his expenses.

To attract New Zealand exhibitors the organisers' local representative, New Zealand wine consultant Ron Small, is offering a cheaper package deal for a New Zealand pavilion. He said that as far as he knew, New Zealand would be the only country with its own national pavilion.

Montana's marketing manager Rob Storey said he saw Singapore and Hong Kong as a good potential market for New Zealand wines. But successful marketing there would involve an education process.

Cooks' marketing man Grant Willoughby did not share Montana's enthusiasm. Singapore's duty-free status, combined with the high rates from New Zealand, made it difficult for New Zealand wines to compete with good French wines on that market, he said.

Tribunal adds confusion to confusing situation

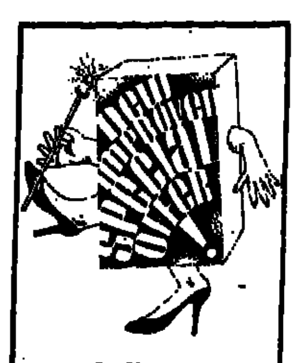
YOU will probably remember the TV commercial which showed a rubbish-strewn beach with a discarded Leopard beer can prominently in the foreground. It urged you to "be a tidy Kiwi. Only lazy people litter". And you may have seen where it was classified as a beer advertisement by the Broadcasting Tribunal and hence banned on the grounds that it was in breach of the rule prohibiting any broadcast advertisement "designed to promote the general consumption of alcoholic beverages".

Now there is a hoary old adage which says that not only must justice be done but it must also be seen to be done. This implies surely that the verdict, and the reasons leading to it, must be expressed in precise, clear and, preferably, simple terms.

The first sentence of the Tribunal's decision reads as follows: "Mr C C Werry of Waipukurau has complained about a 20 second film sponsored on TV Two by Leopard Breweries Limited." (What, exactly, is a 20 second film? Hardly a feature or a documentary. What, precisely, does the Tribunal mean by sponsored?)

Obviously, TV 2, knowing the rules better than most, would have classified it as a public service message rather than an advertisement and certainly, although it achieves good exposure for the pack, it does not actively promote the product.

In the opinion of the Tribunal, TV 2 was wrong in running it because in clause 1 of the decision it states: "The Tribunal is satisfied that the film constitutes an advertisement for the Leopard Export brand of beer", and in clause 2, "Leopard Breweries have paid for this advertisement which we find is a 'programme' that promotes the consumption of liquor". So what was a sponsored film now becomes a paid advertisement and a programme. Which is more than a little confusing.



ADMARK

When Lion Breweries sponsors sports events on TV, it gets plenty of name exposure, too, and we think deservedly. Are the cases all that different?

The position could be a little clearer if words like sponsor, and advertisement and programme, which have clear technical meanings, were used in the appropriate way. If the terminology used is the result of the way the regulations are worded, then get them changed.

After all, broadcasting is in the business of communications.

Leading retailer pushes ad commission barrow

WOOLWORTHS, New Zealand's largest retailer, has taken on the Newspaper Publishers' Association on the question of commissions on retail advertising.

The NPA recommends that its members pay no agency commission on retail advertising. Retail ads make up about 80 per cent of the total ad linage in some papers, but the NPA says that members shoud pay only the ad agency commission on non retail ads. Varying discounts are offered by the 45 NPA member papers for retail advertising.

Woolworths would like its ad agency, Colenso, to receive 20 per cent commission for its retail ads, in line with commissions paid on all non retail ads.

Otherwise, Woolworths threatens, it will place its ads with television and radio where the normal 20 per cent commissions apply.

Woolworth marketing manager Ralph Parsons said his company produced its own ads in house. If Colenso were paid a commission, Parsons said, then Woolworths could drop its ad department and have the work done by Colenso.

Woolworths total retail billings are just under [illegible] million. Eighty-five per cent of this is spent on press advertising, Parsons said.

Parsons conceded that papers gave a discount for retail ads. But, he said, the discount was in no case as great as the 20 per cent commission paid by the papers to agencies for non-retail ads. So in effect, though the retailers provided the bulk of the papers' ad revenue, they paid the highest rates.

Also, Parsons pointed out, retail press ad rates are going up faster than the level of retail sales.

This is not the first time the question of paying commissions on retail advertising has come up. The argument has been going on for some 30 years.

But the Woolworths case comes at a crunch time for New Zealand's newspapers.

Television has been making inroads into the retail scene. And television pays agents a commission. Agencies have been taking an increasing number of retail accounts and can only be expected to place the business where they get commission.

The newspapers will face a hefty increase in newsprint prices from Tasman Pulp and Paper when the "world price" of newsprint has been finally decided, and this could push ad rates up.

New Zealand agencies can point to many overseas examples where commissions are paid on retail ads.

One agency with a number of retail accounts summed up the situation succinctly: "The NPA has put the ad agencies in the position of competing with the very media we feed."

Admark brief

LAST December, [illegible] Christie, Campaign Advertising parliam[ent] celebrated a milestone birthday. Staff were keen to extend a message of good wishes and they did. Logically enough, it was in colour and electronic — by way of a [illegible] second commercial on [TV] One.

+++

COLENSO'S Media Mix reports the current media scene with the eye and the [illegible] an expert. When it turns to comment on journalism rather than journals, it tends to lose its authoritative grasp.

Without mentioning either NBR or Admark, it took to task an article headed "One way to slow the TV cost spiral" which appeared in these columns in the issue of October 11, 1978.

Of course, Media Mix is perfectly entitled to criticise, even when it uses such sententious phraseology as: "We would hope that in future the writers of such articles resist the temptation to repackage old news in such a way as to suggest a breakthrough, or to assume that their lack of knowledge is shared by other media people."

Had Media Mix done its homework for the quotation marks it would have discovered that the article was, in fact, an interview with [illegible] O'Sullivan of SSC & B: Lintas, who would, we believe, be perfectly capable of defending his views in this kind of argument.

But we were really intrigued when Media Mix implied that we failed to report something "new and innovative". We would[n't] even try. We have too much respect for the English language.

Smuggling of contraband from the back blocks

by Warren Berryman

A PRIVATE truck rolls in from Hawke's Bay in the dead of night and pulls up behind an Auckland supermarket. Only muffled sounds and whispers emerge from the loading bay as the contraband is shifted into the market.

Some miles away in Henderson, other trucks are making their clandestine nocturnal rounds from the back blocks to properties closer to the main highways.

Big and respectable businessmen are making handsome profits out of the operation.

The commodity being smuggled and sold on the black market is not cannabis or heroin — but apples.

The men involved are breaking the law, but they don't see themselves as criminals — neither do the vast majority of the public or the law enforcement agencies who enjoy cheaper, fresher apples as a result of this apple smuggling.

But the law says that apple growers must sell all apples and pears destined for resale only to the Apple and Pear Board . . . at what growers consider ridiculously low prices.

Retailers, by law, must buy only from the board, at what they consider ridiculously high prices.

The board's legal monopoly has been virtually impossible to enforce.

In Auckland, where apples are grown within miles of the country's biggest consumer market, virtually all the apples consumed are bought either from the grower at his orchard gate or from a retailer via the black market.

Hawke's Bay growers smuggle an estimated 1 million cases of apples a year to Auckland and the Rotorua-Taupo markets.

Only 20 to 25 per cent of the Auckland region's apple crop goes through the board. Of this percentage most is Granny Smiths, in oversupply on the local market and intended for export. The remaining Auckland apples going through the board are mainly surplus apples that the grower can't sell at his own gate or on the black market. But the board is bound to buy so long as the quality reaches its minimum requirements.

If this happens the board is stuck with last month's variety of apples, which it tries to offload on the retailer (by refusing to supply the next variety to ripen) while the gateseller is busy selling the latest variety of apples fresh off the tree to the consumer.

Most of the small proportion of apples supplied to the Auckland retailers by the board last year had to be transported from Hawke's Bay and Nelson at the board's expense.

An apple of discord

THE New Zealand Apple and Pear Marketing Board is offering apple growers and retail fruiterers a new deal designed to curtail the blackmarketing and gate sales that almost wrecked the board's apple marketing system last season.

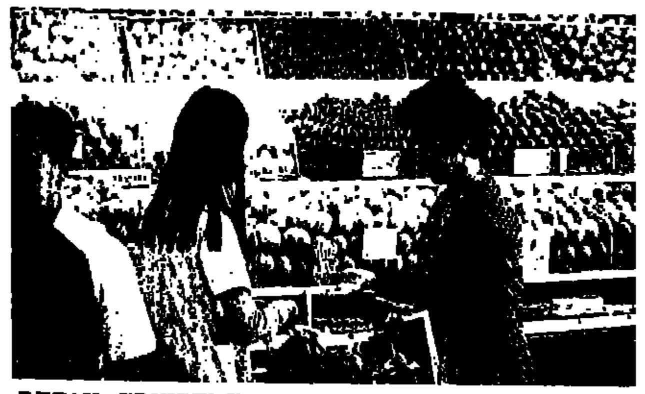
By offering higher prices to apple growers and lower prices to retailers, the board hopes to take the profit out of apple blackmarketing and smuggling, and to make retail fruiterers' prices more competitive with those charged by growers at the orchard gate.

The new deal is expected to result in a loss to the board, at least for the first half of the season.

But the board can now sustain a loss to strengthen its legislated monopoly on the local market. The board enjoyed bumper export earnings of more than $13 million in 1977, due to poor growing conditions in the northern hemisphere. This year's profit (not yet announced) is expected to reach $12 million. Apart from these last two years the board has had an abysmal track record of heavy deficits in 11 of the 30 years of its existence, and only small profits in the remaining years.

The prime function of the board is to maintain high prices for apples and pears by keeping these fruits in relatively short supply. It does this by withdrawing fruit from the market and converting it to juice or juice concentrate.

The processing operation is unprofitable, but it regulates the supply and thus the price level of locally marketed apples.



RETAIL FRUITERERS ... new deal.

THE Retail Fruiterers confronted the board's general manager J Bremner at a meeting in Auckland last year with complaints that gatesellers were putting them out of the apple business.

Bremner said there was no way the board could compete with the gateseller on price, and was selling some fruit in Auckland at a loss.

Foodtown's vice president of produce, Dick Marsh, said his chain's sales had reached an all time low.

"Even our own staff buy their apples from the grower's gate. We haven't got the freshness or price," he said.

This year, the board is offering growers and retailers a new deal. But Foodtown will continue to fight for a free market, Marsh said.

Foodtown is being supported by other Auckland supermarket chains.

J BREMNER ... board cannot compete with gateseller on price.

The board's new deal responds to pressure, including threats of a boycott of the board's apples, from the New Zealand Retail Fruiterers' Federation.

Retail Fruiterers' Federation president Jim Lowe last year complained that the Apple and Pear Board was driving the retail fruiterer out of the apple market.

Last February the board was paying apple growers an average price of 8.6 cents a kg for (uncoloured) gravenstein apples. It sold these apples for a minimum of 40 cents a kg to the retailer. The retailer added a 40 per cent markup and sold to the public for 64 cents.

Often the board would pay as little as 3.7 cents a kg for apples and resell them for as much as 47 cents a kg to the retailer.

The grower could sell his apples at the gate for double the price offered by the board, and still undercut the retailer by more than two-thirds.

Gatesellers sold fruit fresh as soon as it became ripe. The retailer, relying on supplies from the board, couldn't get his first supplies of apples until weeks after they had come on the market at the farm gate.

As a result, apples moved from their traditional 20 per cent of the retail fruiterer's turnover down to a mere 2 per cent last season.

Apple blackmarketing became widespread.

The retailers, supported by many growers, called for a free market for apples and pears.

The board, in conjunction with the New Zealand Fruitgrowers Federation, spent $40,000 in 1976 on a market research study prepared by Massey Research Centre. This report pointed to unworkable aspects of the board's monopoly in the local apple market and recommended a free market for locally marketed apples.

The board buried this report.

The new deal is an attempt to allow the price mechanism to combat blackmarketing where policing has failed.

So far the new deal extends only to early-season apples, gravensteins, albany beauty, and oratia beauty. To encourage growers to supply the board, they will be paid 80 per cent of the wholesale price charged to the retailers.

Many Auckland apple growers see the board's new deal as a move to wipe out the gateseller. The Government has empowered the board to collect a levy from all growers on apples whether these growers supply the board or not. Thus, the grower who sells his whole crop from the gate can foresee the day when the board will use his own levy money to put him out of business.

Dissident growers in Auckland say they will not supply the board with apples in spite of the offer of higher prices. They will continue to undercut the retailers' price selling direct to the consumer.

By and large, the board has its greatest support in areas most distant from the large local consumer markets, and the least support in Auckland. Dissident Auckland growers see no reason why they should subsidise the grower in, for example, Alexandra, where distance from the market increases the transport and handling costs that must be borne by all the board's suppliers.

Lowe said he was prepared to give the board's new deal a go. He still maintains that the retail fruit trade is "burdened with bureaucratic over-legislation which is too often anomalous, not policed, unenforceable, and is just plain stupid".

Auckland director of the Fruitgrowers' Federation and strong board supporter, Horie Skelton, said that a free market system would result in wild price fluctuations for apples and pears following fluctuations in supply.

A free market would force some growers out of business, Skelton said.

But dissident growers point out that many apple growers also grow stone fruit. Stone fruit is sold on a free market basis. And these growers claim that growth and profits in the stone fruit industry have been greater than for apples and pears.

A free market, the dissident growers agree, might lead to price fluctuations. But a free market is self regulating and costs nothing to operate.

The board employs just under 300 people to regulate the production of New Zealand's 1550 growers. In addition, there is the army of delegates (one for every 10 growers) and full time staff of the Fruitgrowers' Federation that must be paid from the growers' production.

The costs to the grower of the board's administration can best be measured in terms of the price differential between the 10 cents a kg paid by the board to the grower and the average 57 cents charged by the board to the retailer for apples.

Even with this huge mark-up the board claims to have made an average profit of only 0.63 cents a kg on apples and pears sold on the local market.

The bulk of the board's mark-up not spent in the unprofitable processing scheme used to keep consumer prices high by creating shortages, goes to pay for packaging and distribution.

Somehow the free market — or as the board would have it "black market" — manages to pay the growers double the board's prices, absorb the packing and distribution costs, and still make a profit.

New deal or not, Auckland growers are unlikely to flood the board with apples this season. Many have a considerable investment in roadside stalls and coolstores.

For many, opposition to the board is a matter of principle — not price.

Black marketeers deal in forbidden fruit

RETAIL Fruiterers' Federation president Jim Lowe claims the Apple and Pear Board's outdated regulations make criminals of the majority of his members. To comply with the law, the retailer last year had to buy his apples from the board at prices more than double those charged the consumer at the orchard gate. Then the retailer was expected to add his 40 per cent markup and sell his apples at a profit.

Anomalies also exist for the gateseller. A grower is allowed to sell apples direct to the consumer in lots of two bushels or less. But he can sell apples only from the property on which they were grown.

Some growers own properties adjacent to major highways which bring a steady supply of customers. Other growers are not so fortunate. Each night during the apple season, a new game of hide and seek is played between the board's inspectors and the back block growers who truck their apples over the rural byways to be sold by growers with a stand and coolstore on a major highway.

According to the board's last annual report, 102 prosecutions were taken for the year against blackmarketeers, with 71 convictions and fines totalling $11,000. This compared with 73 prosecutions for the previous year.

Auckland board inspector Keith Pilkington claims the law is almost impossible to enforce. There are only seven inspectors to cover New Zealand.

Ministry of Transport officers occasionally help him when they pull up a truckload of smuggled apples on the road. But there is a limit to the time a traffic officer can hold a truck until he can get to the scene, Pilkington says.

Pilkington estimates that about 95 per cent of Auckland retailers deal in black market apples. He is in a good position to know. Pilkington, an ex-fruiterer and self confessed ex-blackmarketeer, is a past president of the Auckland Retail Fruiterers' Federation.

Pilkington says the fruit wholesalers who act as the board's agents are compelled to help him with information.

But the wholesalers working at the city markets said they would be reluctant to give the board's inspectors information likely to hurt one of their retail customers or grower suppliers. Many of the wholesalers, while they must act as board agents or stop trading in apples and pears, are known to favour the free market auction system which pertains to other fruit and vegetables.

Pilkington complains that his powers as inspector are insufficient to the task. It would help if he had the power to confiscate black market apples, he says.

It would also help if the judiciary was more sympathetic to the board's case and imposed heavier fines for convicted blackmarketeers.

One might be excused for thinking that J M Callander, SM, had tongue in cheek when last year, upon fining an Auckland retailer $400 for blackmarketing, he said the defendant had "succumbed to the temptation of free enterprise".

Pilkington says he receives no help from the police. "They are just not interested," he says.

Auckland grower and board opponent Anthony Sunde suggested that the policeman was also a consumer, and loath to track down a grower whose only crime was selling the fruits of his own labour at less than half price.

Pilkington agrees that a free market might be justified in Auckland. But this would lead to Hawke's Bay growers smuggling more apples into the free market area.

The Nelson and Hawke's Bay growers, with no market on their doorstep, would end up with surpluses and depressed prices without the board's market intervention.

This would force many of these growers out of business, he says.

The dissident growers don't dispute the possibility of some growers going out of business in a free market situation, but fail to see why they should be forced to subsidise the inefficient grower or the grower who sites his orchard in an uneconomically viable area.

The board can claim that the free market Auckland growers depend on the board's stabilised price levels, if only as a level to be undercut, and thus owe the board its dues.

The major problem facing the board's inspectors lies in the identification of an illicit apple. One apple looks like another on the retailer's shelf.

Last year growers' gate sales of newly-ripened apples preceded the board's release of that type of apple by some weeks. So if the inspector found a gravenstein on the shop shelf before the board began selling gravensteins, he could conclude that that apple had been obtained on the black market. But this year, the board promises to release apples to retailers as soon as they become available.

The inspector might also use the apple containers as a clue to the apple's origins. But in an attempt at cost-cutting, the board introduced bulk bins of apples sold to supermarkets at discounted prices.

Now all the supermarket has to do to beat the inspector is buy one bulk bin from the board and keep refilling it with black market apples.

The inspector has to catch the apple smugglers and blackmarketeers in the act of transporting apples from one orchard to another or to the retailer — and this involves his spending a lot of time in the apple growing districts where he is far from popular.

Dissident Auckland growers are bringing charges of intimidation and harrassment against the inspectors while maintaining their innocence of blackmarketing.

Pilkington complains that the growers have discovered a ruse to get around the prohibition on sales of apples from other than the property on which they were grown.

A grower with a good gate sale location, Pilkington explains, would lease an orchard from another grower in a poor selling position a half a mile distant. The first grower could then claim that the leased property was detached but an integral part of his orchard and thus sell this orchard's production from his own gate.

The next step is to lease another orchard a mile distant and repeat the process. Pilkington says it is a moot legal point when one orchard becomes two or more orchards through distance. He says he puts the limit at about four miles and tries to prosecute cases exceeding that distance.

"We've prosecuted and won cases where the orchards were separated by 20 miles. But we've never won a case under four miles," he says.

NBR BUSINESS WEEK

Planning lessons to be learned from the Irish

Peter V O'Brien has just returned from a business trip to Ireland. He reports...

THE likely doings of the New Zealand Planning Council are a matter of interest (admittedly minor) when looking at developments for 1979. Since the council's formation, it has produced many words but little material on concrete planning.

Whether 1979 will be any different probably depends on the council's attitude to the country's problems.

The council, chaired by economist Sir Frank Holmes, is not cheap. Apart from the direct funding through the Estimates, hidden costs are incurred as the council calls on other Government departments and agencies.

If the council needs to see a concrete example of planning in a community comparable with New Zealand, it could (instead of having people jaunting around Australia) take a good look at the recent White Paper published by the Irish Government. Since Ireland has a three million population, is agriculturally based, with growing second-industry, and has a rapidly growing GNP in real terms (although still behind New Zealand totally and on a per head basis), that document may be relevant to what the Planning Council should be doing.

The White Paper, published by Minister of Economic Development, Martin O'Donoghue (an ex professor of economics, would you believe) on January 6, followed longer term papers Development for Full Employment (taking the economy through to the mid 1980s) and National Development (1977-80). The latest document is Programme for National Development 1979-81. It updates the 1977-80 paper by one year and sets targets for the current year.

Several points need to be noted about this approach to planning, before the local lads jump in. The first is flexibility. The objectives are stated broadly, and are acknowledged to depend on various political or semi-political attitudes or decisions, for example, wage demands, external factors, and price movements.

The old National Development Conference in New Zealand set various targets, several of which were not met.

SIR FRANK HOLMES ... council could learn from Irish.

Because they came to be looked on as God-given goals, there was an adverse reaction when the country failed to achieve some of them.

The second point is that the targets "roll on", in that the three-year plan is updated every year in light of the previous year's out-turn. The Irish Government may have been lucky in that its 1978 targets were achieved with remarkable consistency.

"The targeted increase in national output of 7 per cent was achieved and was not constrained by external factors. However, incomes increased faster than had been envisaged with the consequence that the employment increase was somewhat below target and inflation was somewhat above target. The Exchequer borrowing requirement was close to the target of 13 per cent of GNP."

The third point is the mere fact that these matters are published at the beginning of every year. It is obviously foolish to think that the goals are also the work of the Deity (the Irish Opposition had a lot to say about the White Paper in the manner of Oppositions everywhere), and equally foolish to think that they can operate in a vacuum. In a country which has lightning wildcat strikes, particularly in public services like postal services, telephones and bus transport; where wage demands start off incredible and are then adjusted to just amazing; and where external forces can have a considerable influence, any targets are subject to modification.

But at least there is an expression of where the economy, and society, should be going. We do not have that in New Zealand. We have general talk, in vague terms, including the apparently new concept that if we all love each other things will be alright. That concept was around for many centuries before the Planning Council came on the scene!

The Planning Council has said, rightly, that there is more to planning than just economics. The Irish Papers acknowledge that point. They refer to, and set goals for, social services, health, education, social welfare, development and the environment, urban transport, inner city development, the film industry, housing, and include a broad statement of social policy.

We will probably hear the usual range of objections on why New Zealand cannot do such work. No doubt some will say things are different, the people are different (hard to imagine), our system of government is different (hardly), we are more developed, and so on.

The probability is that we have got ourselves into a habit of talking when we should be doing, and cannot get ourselves out of the habit.

Unless we do change, the day is fast approaching when New Zealand jokes will replace Irish jokes.

Air Pacific climbing into big league

Special Correspondent

THE Fiji-based airline Air Pacific is looking for more and bigger aircraft to try to climb into the big league among trans-Pacific operators.

Among aircraft under consideration are an Air New Zealand DC-8 and a Boeing 727 from Air Nauru.

Either way Air Pacific could afford only to lease aircraft and not buy, according to the airline's New Zealand manager, Del Mannering.

Fiji is about to sign a new civil aviation agreement with the United States, under which it will get rights to fly to Pago Pago, Guam and Hawaii, as well as Portland, Seattle and San Francisco in return for landing rights in Fiji for Continental Airlines.

This follows discussions between the two Governments last November prior to the talks between American and New Zealand officials — which also opened the way to Continental's officially being given landing rights here.

Air Pacific already flies services connecting Fiji, Samoa, Rarotonga, Nuie and Tonga with Auckland and Brisbane.

Apart from expanding its flights to Auckland with a direct Nadi-Auckland service, Air Pacific is also looking at going into Sydney and Melbourne as well as utilising its rights on the American West Coast.

But the airline's financial position is precarious. It made a profit of $626,000 last year following five years of heavy losses, including a loss of $1 million in the previous year.

The move to get bigger aircraft must come, says Air Pacific chairman Don Aldney in his annual report, if the airline is to become fully competitive and if Fiji is to keep its share of tourist traffic from Australia and New Zealand.

Analysing annual accounts

by Peter V O'Brien

SINCE The Canterbury Frozen Meat Co. produced its 1978 report, all freezing companies have had a mark against which to measure their annual presentations.

The second meat company report to be issued, that of R & W Hellaby Ltd, fails to meet the CFM standard.

Hellaby's profit and loss account tells us that "Net Operating and Trading Profit after providing for working and administration expenses and taxation was $3,066,043, compared with $2,104,657 in the previous year.

CFM published a breakdown of its revenue sources, a breakdown of expenses, and full details on the tax imposition, including figures for the various allowances and incentives.

Hellaby follows the traditional freezing company practice and, in a note to the accounts, invokes the outdated statutory provision:

"(a) In accordance with the provision of the 'Companies Accounts (Freezing Works Companies) Exemption order 1956-185, this company has been exempted from the following requirements of the Eighth Schedule of the Companies Act 1955:

(1) The requirements of paragraph 7 insofar as it requires any provision for tax to be separately stated.
(2) The requirements of paragraphs (d) and (g) of subclause (1) of paragraph 13."

That jargon allows freezing companies to hide their tax liabilities, for reasons which have little weight in the late 1970s, and even less when the full publication in the CFM annual report is taken into account. The world is still going around in spite of CFM's decision. The Christchurch-based company is still making a profit, and not suffering at competitors' hands, after publishing the information expected from large public companies operating in essential industries.

Given the lack of information in the Hellaby accounts, it is impossible to work out what happened to revenue and expenses last year. The group's performance, therefore, has to be taken on the trust of the textual material in the report.

On the credit side (since we have so far engaged in sustained criticism of the company) Hellaby does produce information on the changes in the current assets and liabilities position. A short passage shows that this requirement can be met simply, and without a massive number of words.

"It will be noted in the balance sheet that there is a very substantial lift in bank overdraft which is matched by stocks and debtors. These movements reflect the higher prices paid for livestock, increased processing costs, and the extended killing season. Since balance date the stocks have been cleared at satisfactory prices."

A note shows that "meat and by-products" accounted for $17,275,734-worth of the total $20,996,141 tied up in stocks at balance date. That was 82 per cent of total stock value, compared with 77 per cent in 1977.

Livestock, stores and raw materials, and manufactured products, accounted for the balance.

The company says stocks have been reduced since balance date. Since meat and by-products are recorded at "lower of cost or net realisable value", it would be interesting to know what the post balance date realisations have been.

An overall rise in meat prices since Hellaby took the stocks into store could have provided a useful start to the current year.

This point could be relevant to the present financial strength, when read in conjunction with the proprietorship ratio in the group (relationship of shareholders' funds to total assets).

Hellaby's shareholders' funds at balance date were 42.8 per cent of total assets, compared with 48.2 per cent in 1977. That is a sizable decline in one year, and, if continued, would be a warning sign.

The clearance of stocks since balance date, plus the one for four cash issue underway, and another issue proposed for 1979, should improve the ratio (although borrowed funds will probably offset the issues as the company organises the total finance required for its new Taumaranui works).

Until this year, the Hellaby report was near the top of the freezing company sector. Today CFM has set the standard against which others must be measured. It will be surprising if many reach the measure.

Key indicators

		Current Period	Previous Year	Per Cent Change
Consumers Price Index — all groups base Dec. 1977 equals 1000	DEC78	1101	1000	+10.1
Building Permits Issued	SEPT 78	$94.1m	$108.8m	−13.61
	SEPT 78 YR	$480.00m	$593.2m	−19.08
Official Overseas Reserves	NOV 78	$653.1m	$652.9m	+0.13
Registered Unemployed — incl. those on special work schemes	DEC 78	52,750	24,452	+115.91
NZUO Share Price Index	25 JAN 79	326.07	239.36	+11.15
Reserve Bank Share Price Index	24 JAN 79	1374	1236	+11.00

Italy cracks down on tax dodgers

Times

THE Italian Press is co-operating in a new drive to close the many loopholes in that country's tax system. It publishes the names of people who are alleged to have understated their income, or who in some cases have not filed a return at all, and quotes the amount of unpaid tax.

Tax offices are giving the newspapers the information to scare delinquents and discourage others who might be tempted to follow their example.

Some of the case histories are revealing: a wealthy widow who reported an income of only a few hundred pounds a year when, the revenue men claimed, she actually was receiving several tens of thousands; the industrialists who under-estimated their annual earnings by 50 to 75 per cent, and the engineers in good jobs who "forgot" to make any returns at all.

Embarrassment of the people concerned is the object of the exercise. If some people might accuse the Italian tax men of playing rough, their defence probably would be that they go to such drastic lengths for the lack of more orthodox means to bring delinquents to book.

In the past, evasion has been most common in the field of personal income tax, specially on the part of the self-employed. But with the introduction of a value added tax a few years ago, evasion reached a new peak.

The Internal Revenue Service is planning a counter-offensive. A three-year programme of overhaul and reorganisation has been announced to put it on a "war footing" by the end of 1981.

The loss to the Italian Treasury in 1978 has been estimated as high as 40,000bn lire or the equivalent of $50 million — equal to 20 per cent of the total national income of the country.

Disturbing disregard of disasters

Melbourne Correspondent

THE Australian Insurance commissioner, M. Bassett, has warned Australian insurance companies that they are disregarding the long-term impact of natural disasters.

He said that one of the most disturbing aspects of the severely competitive Australian insurance market was the apparent disregard of the certainty of natural disasters in the long run.

He told a Risk and Insurance Management Conference in Melbourne that a decline in Australian underwriting in 1978-79 appeared likely, and a significant natural disaster could result in an overall underwriting deficiency.

There was a real danger of the collapse of some of the weakest members under pressure of competition because of unusual losses sustained through natural disaster.

The commissioner's warning takes on added significance in the light of the apparent failure of the Australian Government to implement a natural disaster insurance scheme, initially proposed after the 1974 Darwin cyclone disaster, and Queensland floods, which caused an estimated $A300 million loss to insurance companies.

Lobbying for the national disaster insurance scheme increased following the 1977 Sydney storms, which are reported to have cost insurance companies about $A50 million.

But the president of the Australian Insurance Association, W M Cowper, said recently that the scheme is unlikely to be adopted by the Australian Government because of financial difficulties. He claimed that such a scheme was nonetheless imperative, both for the "general insurance services, and ultimately for the whole economy."

Partnership pays off for Wallace

by Peter V O'Brien

IN the west of Ireland, far removed from the seminars and ballyhoo of Export Year, the Auckland group D McL Wallace Ltd, in partnership with an Irish company, is building up a successful manufacturing concern.

Wallace has a joint venture with Edmond P Harty Ltd at Causeway, 15 miles from the town of Tralee in County Kerry. The joint venture company, Advance Industries Ltd, makes milking machines incorporating components made in New Zealand and shipped to Ireland.

Wallace exports components to Causeway, where the rest of the machine is made. The finished products are then sold mainly in Ireland, although there is some export trade to Europe. Advanced Industries has insufficient capacity at present to meet the European demand for finished machines.

The joint venture enterprise is also engaged in Wallace's "Clevco" range of yacht fittings, particularly jib hanks. These lines are expected to increase in future.

The company is the only manufacturer of milking machines in the Republic, although other machines, including some from New Zealand, are imported.

The Irish partner in the joint venture is a company owned by 35-year-old Ned Harty, whose family has been farming in the region for many years. Harty's factory and the Advanced Industries plant are sited on part of the family farm, but in an area which is closely settled by New Zealand rural standards.

Harty started business selling milking machines for an Irish co-op on his own account, and then imported some items from Wallace. Eventually he was importing "nearly everything", before the formation of Advanced Industries.

E P Harty Ltd has additional interests in engineering, including railings, cubicles, gates, and general metalworking of various kinds. At present there are 12 people employed at Advanced, with another 30 working for Harty's company. Harty expects to have 30 in Advanced within two years, increasing a year later to 40. While those figures are modest by usual manufacturing standards, they make the two companies a sizeable employer in an Irish rural community, and represent a strong growth rate. Over the same period the target calls for a 50 per cent increase in output. At that point Harty expects to "stop for a bit", to consolidate and to build production to the full capacity of the workforce and the physical facilities.

Harty has several reasons for the success of his company and of Advanced Industries. The first is a capacity for hard work, both personally and in the workforce.

"We work hard in the countryside," Harty says. "Nearly all our fellows are farmers' sons who are used to working hard. In the towns you can get a different sort of person."

Hard work in the rural areas has been necessary. Irish farm life was tough until the country entered the Common Market. Today it is still hard, but conditions are much better, with farm incomes rising rapidly (although there are still several areas of very low income farming), an increasing use of modern machinery, up-to-date farm houses which would grace many a New Zealand dairy holding, and high-class motor cars parked in several of the driveways. (Since the Irish farmer is receiving the equivalent of $1 a gallon for milk under the EEC's Common Agricultural Policy, some farmers with larger holdings can afford the luxury of vehicles which would attract glances in Taranaki, and even in the better parts of the Waikato.)

Harty's second reason for success is personal knowledge and involvement. "If you cannot show a fellow what to do then you cannot control it," he says, emphasising his view that nearly all the failures in the country's engineering sector have resulted from a lack of practical knowledge in the managers.

He clearly has little time for non-practical people in companies oriented to engineering, and says he is "happier with a wrench in my hands", although acknowledging the need to spend time on administration, particularly as the organisation grows bigger.

Since it is difficult to control a company from the other side of the world, this philosophy seems to suit D McL Wallace, which has developed a good relationship with Harty.

An 11,000 square feet building is being finished to house the expanding Advanced Industries' business, a development which will take pressure off E P Harty Ltd's factory, and lead to improved efficiencies. Harty's view of dead overheads shows through in the new factory when he draws attention to the small offices.

The factory is financed by a combination of the partners' funds and a grant from the Industrial Development Authority, Ireland's key organisation for both large- and small-scale industrial development.

The IDA will make a grant, provided certain criteria are met, on the basis of one pound grant for every one pound of equity put into a venture. (Working from the basis of IDA grants several other unique financing systems have been developed in Ireland, but they are not being used in the Advanced Industries' expansion.)

The joint venture company funds working capital from internal resources, and has good overdraft facilities. No problems are foreseen on the financial side of the business.

Wallace's entry into partnership with Harty is working well for both sides. In the typical mould of Kerrymen, Harty wastes few words. He appears to carry over that lack of waste into business practice, a characteristic which is indirectly benefiting New Zealand's overseas trade.

Performance precis

by Peter V O'Brien

FLETCHER HOLDINGS LTD

The widely-diversified Auckland group reported a 14 per cent profit downturn in the first six months of the current year, after seeing sales remain almost static at $192.2 million, compared with $192.4 million in the first half of the previous year.

Fletcher's interests were so wide that the company has been almost a mirror of the economy. There is a programme of rationalisation of the multitude of industry involvements, but that will take time to reach its full effects. The half-year figures for earnings were influenced by the profit dive in Tasman Pulp and Paper Co. (see below). On the other hand, the group benefited from a rise in extraordinary items. Profit from trading operations was only marginally down on the previous year.

The group is now relying more on business associated with its long-standing interests in construction and the timber industry. The decision to reserve the horizontal diversification process should assist the company in future, in terms of keeping good control over the activities in the business mix.

From this viewpoint, the shares' dividend yield of 8.5 per cent is interesting, although the price is still more than 7 times 1978 earnings.

NZ FOREST PRODUCTS LTD

In spite of a massive profit fall in the first half of the current year (down 70 per cent from trading, and 40 per cent in terms of net profit after various adjustments), NZFP is apparently doing better in the second six months.

The directors' interim report for the period to September 30, 1978, included a comment that "on present indications the second half will be better than the first six months, but total profit is expected to fall short of that achieved for the last financial year".

Prices are rising for group products on overseas markets at present and the demand is also improving. In these circumstances, it is not surprising that the market preserved the share price above the $2 level.

NZFP's status as a blue chip company has been downgraded considerably in recent times. The share price moved between $2 and $2.29 in 1978, while the dividend yield has been consistently above the 7 per cent mark, compared with the old days when the company was among the lowest yielders on the list.

TASMAN PULP AND PAPER CO LTD

A loss of $4,482,000 for the first six months of the current year would normally cut a company's share price to very low levels. It stands to someone's credit (probably the new directorial and managerial regime) that the share market hardly altered the company's share price. In 1978, the price moved between $1.18 and $1.58, with a figure around the $1.40-$1.45 mark immediately after the interim report.

As in the case of NZFP, the company expects an improved second six months, which should dispose of much of the first half loss. That suggests a more or less breakeven position for the full 12 months.

Tasman is classified almost in the rank of a national asset, and therefore its health is linked to the country's economic wellbeing more than many other companies. But that is small consolation to the remaining private shareholders, who saw another market leader almost submerged in a flood of problems. The new regime is working to sort out those problems, and apparently is having success in doing so, although it is still early days.

WALKER AND HALL LTD

The Auckland-based silversmith had a small profit fall in the first six months, in spite of a rise in sales (also small).

The company should benefit in the second half from some increased consumer spending, although it is likely that Walker and Hall has a steady business from many of its customers, who may feel the effects of restrictions on disposal income less than other groups.

The directors said they are hopeful the full year will show an improvement over last year.

Although the company is very small (capital $215,000), it has performed well in recent years, and turned in high earning rates on capital. As a specialised business, it is unlikely to ever become very large, but has provided its limited number of shareholders with good returns.

Exchange rates

As at 25th January 1979

$1NZ is worth:

Australia	.9264
Britain	.5275
Canada	1.2521
Fiji	.8677
Japan	207.02
West Germany	1.9300
USA	1.0629
Austria	14.15
Belgium	30.45
China	1.6551
Denmark	5.3531
France	4.4284
Greece	37.43
Hong Kong	4.9796
India	8.5697
Italy	872.85
Malaysia	2.3
Netherlands	2.0840
New Caledonia and Tahiti	80.58
Norway	5.3133
Pakistan	10.32
Papua-New Guinea	.7370
Portugal	48.91
Singapore	2.2630
South Africa	SUSPENDED
Spain	72.69
Sri Lanka	15.97
Sweden	4.5 [illegible]
Switzerland	1.7 [illegible]
Western Samoa	.7 [illegible]

Selling rates supplied by CBA Bank.

NBR SHAREMARKET SURVEY

WEEK ENDING JANUARY 25, 1979

1979 High	1979 Low		Last Sale	Week's High	Week's Low	Dividend %	Reported Turnover	Dividend Yield	P-E Ratio
		AIRWORK,50C	85	...	...	12.0	0	7.1	2.6
190	190	AJAX F.R.H.	190	190	190	13.0	1800	6.5	4.1
90	90	A.J.WHITE	90	90	90	11.5	1100	12.8	4.2
115	115	ALCAN,50C	115	115	115	20.0	1200	8.7	3.9
254	245	A.H.I.	253	254	250	14.0	8600	5.5	4.3
75	72	ALLIANCE,50C	75	75	74	13.0	4100	8.7	4.5
245	235	ALLIED FARMERS	245	245	235	14.0	8900	5.7	6.1
127	127	ALLIED PRESS	127	127	127	10.5	3000	[illegible]	5.0
		ALLOY STEEL	275	...	...	12.0	0	4.4	10.9
		AMALG.BATTS	160	...	...	13.5	0	8.4	6.4
195	196	A.M.FIBLEY, 50C	175	195	195	20.0	1900	5.1	3.2
90	90	AMPOL PET.,50C	90	90	90	11.0	3700	6.1	14.1
128	125	A.BEAVER	125	128	125	12.0	6100	9.6	5.0
125	125	A SPRINGHALL,	125	125	125	14.0	3400	11.2	2.7
260	260	A.WRIGHT	260	...	...	17.0	0	6.5	3.1
190	190	A.BARNETT	190	...	...	16.0	0	7.4	3.3
125	125	A.ELLIS	125	125	125	11.0	400	8.8	3.3
330	325	ARTHUR YATES	330	330	330	17.0	5700	5.2	5.0
305	175	ASHBY BERGH	305	305	305	22.5	1000	7.4	3.7
203	198	A.S.PATERSON	205	203	198	15.0	22300	7.4	6.8
		A.B.CABLES	170	...	...	16.5	0	9.7	4.1
51	50	ATLAS, 50C	51	51	50	17.5	14800	17.2	2.8
315	310	AUCK.GAS	310	315	310	12.5	600	4.0	13.4
		AUCK. INTERCON. PROP	110	...	...	5.0	0	4.5	23.0
210	210	AUKGRAY,50C	210	210	210	14.0	6300	3.3	10.4
		A.C.I.	176	...	...	9.0	0	4.5	7.0
90	81	AUTOCRAT HOLDS	90	90	90	17.5	2400	19.4	2.6
90	50	BAILLIE,50C	52	90	52	10.0	1400	9.6	6.3
78	76	BALLINS,50C	76	78	76	12.5	5300	8.0	6.2
425	415	BANK, N.S.W.,$2	425	...	...	15.0	0	7.1	6.2
		BEACH PETR.,50C	76	...	...	...	0	...	...
78	71	BING HARRIS, 50C	78	78	75	12.5	4500	8.0	5.4
165	165	B.N.Z. FINANCE	165	165	165	12.5	1700	7.6	7.7
44	44	BRAMBLES BURNETT,50C	44	44	44	12.0	6400	13.6	3.4
57	52	BRIDGEVALE,50C	52	52	52	6.0	200	5.8	4.3
250	243	BRIERLEY, 50C	245	242	245	26.0	6000	5.7	4.7
77	75	BRS, 50C	77	...	...	16.0	0	10.4	5.8

NBR / NZUC SHARE PRICE GRAPH (Base 1967=100)